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MICROINSURANCE IN EL SALVADOR

IMPROVING ACCESS TO FINANCIAL SERVICES PROJECT

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Improving Access to Financial Services Project

Microinsurance in El Salvador

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USAID Improving Access to Financial Services Project in El Salvador

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ACRONYMS

A2ii		Access to Insurance Initiative
ABANSA	Asociación Bancaria Salvadoreña	Salvadoran Banking Association
ANEP	Asociación Nacional de la Empresa Privada	National Association of Private Enterprise
ASES	Asociación de Empresas de Seguros de El Salvador	Association of Insurance Companies of El Salvador
ASOMI	Asociación Salvadoreña de Microfinanzas	Salvadoran Association of Microfinance
ASPROS	Asociación Salvadoreña de Productores de Seguros	Salvadoran Association of Insurance Producers
BANDESAL	Banco de Desarrollo de El Salvador	Development Bank of El Salvador
BCR	Banco Central de Reserva	Central Reserve Bank
IDB	Banco Interamericano de Desarrollo	Inter-American Development Bank
BoP		Base of the Pyramid
CAC	Cooperativas de Ahorro y Crédito	Savings and Loans Cooperatives
CCM		Microinsurance Advisory Committee (Brazil)
CEPAL		Economic Commission for Latin America and the Caribbean
CIMA	Conferencia Inter-Africana de Mercados de Seguros	Inter - African Conference on Insurance Markets
CNSP	Consejo Nacional de Seguros Privados	National Council of Private Insurance (Brazil)
CONAMYPE	Comisión Nacional de la Micro y Pequeña Empresa	National Commission for Micro and Small Enterprises
DC	Defensoría del Consumidor	Consumer Advocate
DIGESTYC	Dirección General de Estadística y Censos	General Directorate of Statistics and Census
EHPM	Encuesta de Hogares para Propósitos Múltiples	Household Survey for Multiple Purposes
FEDECACES	Federación de Coop de Ahorro y Crédito de El Salvador	Federation of Savings and Credit Cooperatives of El Salvador
FEDECREDITO	Federación de C de C y Bancos de los Trabajadores	Federation of Credit Unions and Workers Banks
FMLN		Frente Farabundo Martí para la Liberación Nacional
GIZ		German Agency for International Cooperation
IAIS		International Association of Insurance Supervisors
IC		Insurance Commission (Philippines)
INSAFOCOOP	Instituto Salvadoreño de Fomento Cooperativo	National Institute of Cooperative Development
MPI		Multidimensional Poverty Index
IRDA		Insurance Regulatory and Development Authority (India)
LAC		Latin America and Caribbean
LBCSAC	Ley de Bancos Coop. y Soc. de Ahorro y Crédito	Cooperative Banks and Credit Unions Law
LGAC	Ley General de Asociaciones Cooperativas	General Law on Cooperative Associations
LSS	Ley de Sociedades de Seguros	Insurance Societies Law
MARN	Ministerio del Medio Ambiente y Recursos Naturales	Ministry of Environment and Natural Resources
MFI		Microfinance Institutions
MYPE		Micro and Small Enterprises
NGO		Non-Government Organization
PAC		Anti-Crisis plan
PEA		Economically Active Population
REDCAMIF	Red Centro Americana de Microfinanzas	Central American Microfinance Network
SAC	Sociedades de Ahorro y Crédito	Savings and Credit Societies
SAP	Sistema de Ahorro para Pensiones	Pension Savings System
SAPR		Self-Assessment & Peer Review
SBS	Superintendencia de Banca, Seguros y AFP	Banking, Insurance and PFA Superintendence
SEC		Securities and Exchange Commission (Pakistan)
SIGET	Superintendencia de Electricidad y Telec.	Superintendence of Electricity and Telecommunications
SSF	Superintendencia del Sistema Financieros	Financial System Superintendence
SUSEP	Superintendencia de Seguros Privados (Brasil)	Superintendence of Private Insurance (Brazil)
ToR		Terms of Reference
UCA	Universidad Centro Americana	Central American University
UNDP		United Nations Development Program
USAID		United States Agency for International Development
VAT		Value Added Tax

EXECUTIVE SUMMARY

The purpose of this study on microinsurance in El Salvador, as part of the "USAID Project for Improving Access to Financial Services," is to:

1. Provide a detailed analysis on the *status quo* of the current environment of microinsurance in El Salvador.

2. Propose a strategy to promote microinsurance that may cover all aspects of the "microinsurance value chain" and include all participants.

3. Submit proposals and recommendations on potential products and channels.

This study is relevant because no thorough analysis of the insurance market environment intended for the most vulnerable population has ever been made in El Salvador. Salvadoran microinsurance and small entrepreneur population is generally excluded from the offer of conventional insurance. However, we expect microinsurance to expand as it has done at international level. In 2007 microinsurance was reported to cover over 78 million people (Roth, McCord, & Liber, 2007), this figure reached 135 million in 2009 (Lloyds & Microinsurance Centre, 2010) and in 2012 it rose to 500 million (Churchill & McCord, 2012).

These three activities were vital to reach the objectives of the study: 1. A questionnaire presented to participants in the value chain. 2. A 2-week visit to El Salvador to interview 21 participating agencies and organizations (see Table 1).

ORGANIZATIONS INTERVIEWED
Public sector, regulation and supervision
Ministry of Environment and Natural Resources (MARN)
CONAMYPE
BANDESAL
Financial System Superintendence
Central Reserve Bank
Consumer Advocacy
Associations and Guilds
ASOMI
FEDECACES
ASES
ASPROS
Insurers
Seguros Futuro
SISA
ACSA
Scotia Seguros
La Centro Americana
Aseguradora Vivir
Aseguradora Popular

ORGANIZATIONS INTERVIEWED
La Central de Seguros y Fianzas
ASESUIZA
MFI
Servicios Financieros Enlace
ACACSEMERSA

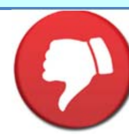
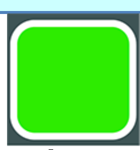
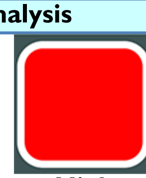
Table 1. Organizations interviewed

3. During this visit, we had the opportunity to make a brief field visit to the municipality of Santa Tecla and carried out three "mystery shopping's" for insurance products distributed in bulk at a supermarket chain, a pharmacy chain and a shop for home products.

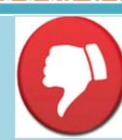
Given the results of said activities, we thoroughly analyzed the status of microinsurance offered in the country and the way in which public policies and the regulations applicable to microinsurance impact development of this market in El Salvador.

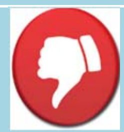
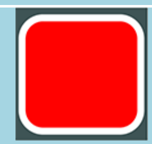
Even though we did not find any insurmountable constraints from a regulatory point of view, we did find some constraints that should be overcome in the short- and medium-term. We also identified certain behaviors and/or practices in microinsurance offers that may be leveraging or hindering the development of microinsurance markets[1].

Table 2 briefly presents the findings, constraints and strategies proposed in this study. It will use the icons identified below:

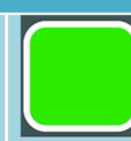
Icons		
Feature Evaluation		
 **Favorable** The feature is not a constraint, it actually facilitates and promotes of the microinsurance market development	 **Satisfactory** The feature does not prevent the development of microinsurance market but it does not promote it. But it may eventually achieve such promotion objective	 **Unfavorable** The feature is a barrier to the development of the microinsurance market
Intervention level (IL) concerning the feature under analysis		
 **Low** No intervention is required in the short to mid-term	 **Medium** Intervention is required as the microinsurance market evolves	 **High** Immediate or short-term action is required

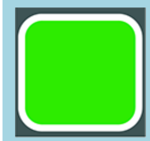
[1] The purpose of this study was not to analyze demand of microinsurances or an analysis of the perception of risk and insurance by the microinsurance target population.

	Findings	Evaluation	Strategy/entity in charge	NI
	I. CROSS CUTTING FINDINGS 			
1. Concept of microinsurance	Participants in the value chain are confused regarding the concept of microinsurance. Sometimes it is confused with popular insurance, mass insurance and social security. Respondents perceived certain elements as cutting across classification of products as such. These included: (i) the amount insured, (ii) premium cost, (iii) the nature of the channel, (iv) the use of mass channels, (v) characteristics of the target population, and (vi) simple products, easily accessible, with simple policies. However, a closer analysis revealed that the trend was to conceive microinsurance as insurance for the poor, emphasizing that while some mass insurance may be microinsurance, but not all the mass insurance is microinsurance.		The definition of microinsurance will gain acceptance as its market evolves in El Salvador. It only requires adopting a definition of microinsurance in order to create regulationspecifically for it..	
	II. PUBLIC POLICIES 			
1. Risk management and insurance	Risk management is not crucial to state policy, even despite the obvious exposure of El Salvador to certain risks. During the visit, we verified that even state goods and projects are uninsured. Government programs where risk management through insurance is vital are being underused.		Risk management topics and the role of insurance should be considered in strategies, and by committees in charge of discussing issues such as a national climate change strategy, financial inclusion policy, national strategy for financial education, promotion of integrated capabilities for micro-entrepreneurs, conditional transfer programs, etc.	

	There is no mandatory Insurance in the country where the microinsurance target population may be benefited.		*/Government Entities*	
2. Access to financial services	Financial inclusion is a priority for the current government and this is reflected by the creation of a round table of "financial inclusion." This brings together the SSF, BCR, and Presidency of the Republic, CONAMYPE, BANDESAL and U.S. Treasury technical office. Its purpose is to institutionalize El Salvador's policy of financial inclusion. SSF and BCR signed AFI's Maya Declaration. The CRECES Mipyme Program shows the state's interest to strengthen financial inclusion. This interest is also shown in the regulations, i.e. financial correspondents' standards, the law against usury, and the current MYPES' law, and financial inclusion study. MFI penetration in the country is high.		Advance the agenda in the approval of projects and financial inclusion MYPEs. */Legislative Assembly*	
3. Communication between industry and State	Recently, the relationship between government and insurance sector has deteriorated. Nevertheless, the relationship between the insurance sector and SSF is positive.		It is vital to improve the relationship between the insurance industry and the government in order to implement public private partnerships, which have an essential role in microinsurances. They may use SSF as a bridge and microinsurance may be a topic that generates cohesion between them. */Government agencies and private sector*	

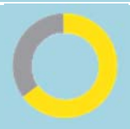
III. SUPERVISION AND REGULATION

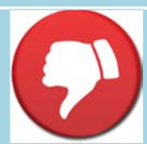
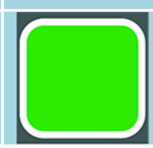
1. Supervision	The agency supervising the insurance business in El Salvador is the SSF, and the Superintendence of Competition and Consumer Protection accompany its work. However, considering that other types of self-regulated entities or those supervised by other		In this context, communication between SSF and other enforcement bodies needs to be encouraged; development of microinsurance needs to be leveraged along with an adequate protection of consumers.	

	agencies may take part in the microinsurance value chains, other enforcement entities fulfilling supervisory functions or self -regulation are also relevant for microinsurance. There are also some unsupervised entities; others are not regulated by any enforcement agency.		As the microinsurance market evolves, strengthening enforcement mechanisms dedicated to insurers concerning their marketing channels is recommended. */SSF, ASES, insurers*	
2. Taxes	<u>VAT:</u> All insurance –except life– are subject to VAT (13%). <u>Income tax:</u> (i) amounts paid for premiums may be deducted, provided they are related to risk insurance taken covering goods that are part of the production source of income; (ii) income derived as compensation received from insurance policies is tax-free; (iii) certain social expenditures may be deducted in the income tax return. These include the costs for "*retirement pension plans, health and life insurance and similar benefits provided free and generalized to all workers in order to foster cultural and material well-being for them and their children, only if such services are provided in the country.*"		We suggest an analysis of the possibility to make loss insurance tax exempt in order to foster the supply and demand for such products. */Legislative Branch* It is positive that all expenses incurred to pay retirement pensions, health and life insurance and the like that are provided free to workers and they may be deducted from income tax return. This tool should be emphasized and specifically disclosed because it may act as an incentive to increase demand for such products by employers.	
3. Access for insurers	Only corporations and stock companies can act as risk takers. However, while the Insurance Societies Law (LLS) was in force, it allowed authorized insurance cooperatives to continue operating provided they gradually adjusted to certain prudential requirements. In this context, Seguros Futuro is actually the only insurance cooperative in the country. FEDECREDITO is comprised of rural savings banks, workers' banks, and agencies operating as MFI in El Salvador. It is organizing one company for loss and another one for life insurance.		Keep on promoting competitiveness in the market for new insurance access, as in recent FEDECREDITO applications to create its insuran ce entities. Promote a legislative reform that will let insurance cooperatives act as risk takers. */SSF and Congress*	
4. Access to distribution channels	El Salvador insurers can offer their products directly, through insurance intermediaries, and through mass marketing (in this case products must be "suitable" to that specific marketing; however, it is not clear what those products are all about.) Registration of mass merchandisers takes long and it is		El Salvador has no specific regulation for group insurance, this is one fact to be considered and at the same time, it is vital to balance simplicity, speed of service, low operational costs, as well as the limitations of insurance group themselves. This is essential, since the participants in the microinsurance value chain in El Salvador have	

	costly. Therefore, most of the channels having access to the microinsurance target population may find themselves excluded because they fail to meet these requirements. From that perspective, insurers prefer to use channels such as group policyholders.		already identified group subscription as the most advantageous for its reduced costs. The challenge now is to overcome constraints of individual subscription for microinsurances so it may offer to be as expedite as group insurance. */SSF and BCR*	
5. Access to transactional platforms	In the case of financial correspondents, insurance companies were not included among financial institutions authorized to use transactional platforms. This channel cannot be used directly but through savings and credit institutions, they signed a bank-insurance agreement. Several entities operating in the country as MFI were also excluded. Enactment of the law on financial inclusion, which provides for electronic money, is pending. There is no regulatory framework for electronic commerce.		Accelerate the adoption of the agenda of the Law on financial inclusion. */Legislative Assembly* Monitor the use of financial correspondents to assess their impact on microinsurances and whether they are being used to promote massive insurance contracts. */MFI and insurers*	
6. Design and Registration of Products	<u>Process:</u> The process of registration and approval of products is operating as a barrier to the provision of microinsurance products. We believe that such a process is too long and expensive. There were cases in which the registration took 6 months to be approved. This problem is not related to the regulation since it sets shorter deadlines (in theory the process should take about 60 days). Both SSF and insurers agree that this extension is the result of both participants in the process. Mechanisms are being implemented to streamline these processes. The Consumer Protection Law requires that the Consumer Advocate verify the "the filed forms" of contracts of adhesion (in this case, models of policy), together with the institution responsible for control and monitoring (in this SSF case) within a period not exceeding 30 days.		We believe that removal of this barrier is essential and requires immediate intervention. The creation of a special registration system for mass insurance products, or for microinsurances (according to the alternatives presented) that is "file and use" is proposed (As stated below, three alternatives are proposed). It is required to clarify the role of the DC in the verification process of policy models. It is noteworthy that despite having a system of exemption from registration we suggest detailed analysis of the reasons for the current delays and try to solve them and also speed up the registration of conventional insurance. */SSF and BCR*	

	The registration process and product approval is the same for conventional and mass insurance. The SSF has been responsive in the approval and registration of innovative insurance products.			
	<u>Actuarial basis</u>: A constant concern of SSF is the lack of accurate statistics and actuarial basis of the microinsurance target population. According to the insurers, too many documents are currently required to support the pure risk premium.		On statistics and actuarial basis to support pure risk premium, Article 17 of the Rules for Filing Policies prescribe for cases where there is no market experience on risk administration, they may review reinsurance premiums rates and/or basis for similar risks in other countries as a reference. The recommendation is to promote and collect information and data on microinsurance products. This role can be undertaken by ASES. */SSF, ASES, insurance companies*	
	<u>Stamp</u>: The approved models will bear the stamp "Filed in the SSF."		The use of the stamp "Filed in the SSF" can be promoted to create awareness among consumers about the role of SSF and provide security to them about the products bearing such seal. */SSF*	
7. Market behavior	Training requirements for mass marketing channels (Annual Training Plan) that are now considered sufficient in the regulation but need better implementation in practice were established		As microinsurance market evolves, it is important to evaluate the degree of effectiveness of the regulatory requirements relating to the training of channels. */SSF, insurance /ASES entities*	
	There have been constant complaints in the context of bankinsurance on the failure to comply with reporting obligations. In this regard, it is noteworthy that the framework does not apply greater emphasis on ways in which the marketer must transmit information. It only refers to Manual Procedures and Control Policies without establishing substantive criteria to be considered for such manuals.		It is necessary to provide accurate SSF criteria to assess the level of adequacy of the Procedures Manual and Control Policies. Then, the way in which the channels meet and/or must meet reporting requirements will be clear. */SSF*	

	Concerning payments and liability of the channels, there are no clear-cut rules about how payment to the marketer is considered as payment to the insurer, or the insurer is liable for all damage caused to the consumer by the marketing channel. The LSS emphasizes the importance of confidentiality in the information provided by the insured, but does not mention that mass marketers should respect that confidentiality; however, the practice of sharing personal information without permission is prohibited.		As far as possible, it is important to begin to clarify the degree of liability of insurers in relation to their marketers. Similarly, it is important to protect consumer's privacy by both the insurer and any other participant in the microinsurance value chain s. */SSF, BCR, insurance entities/ASES*	
	There is an adequate system for abusive clauses and practices.		As the microinsurance market evolves, it is recommended to pay special attention to potential clauses and abusive practices that may arise, so that regulation may operate in the future as a way to address any market failure. Self-regulation in this area could play an important role. */SSF, insurance /ASES entities*	
8. Subscription of insurance contract	<u>Right and obligation of information:</u> The regulatory framework emphasizes it is important for the consumer to obtain and understand the information needed to give their consent prior to signing the contract. Such information must be provided clearly, accurately, complete and timely and equally accomplished for both policyholders and insured's in individual or group insurance. The way to verify compliance with the reporting obligation is supported in "the document." Particularly, the insurance application must contain the general conditions of the contract. However, such requests may fall into disuse in microinsurances because the application and acceptance process by the insurer usually occur at the same time.		The document is not the ideal way to inform consumers of microinsurance s; it is important for insurers to innovate in these methods and that SSF is open in accepting various methods. */SSF, insurance entities/ASES*	
	<u>Proof of consent:</u> In El Salvador proof of consent is the handwritten signature. At present, there is no standard to approve the use of digital signature. However, there is currently a draft law on the subject. While the oral execution of the contract is allowed (e.g. through call centers) the evidence is the recording of the acceptance. It is also required that		It is important to push the Agenda in enacting the Law on digital signature. */Legislative Assembly* It is equally important to consider and clearly explain the use of other verification mechanisms such as consent recordings, use of electronic keys, etc. */SSF, insurance /ASES entities*	

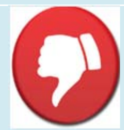
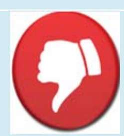
	the insured to sign the policy sent to him/her.			
	<u>The policy:</u> Assessing the required content shows that they are all justified and need to be communicated. Compared with other countries it is not considered that El Salvador has excessive requirements in this area. In this context, it is very likely that a policy is short and simple when it meets regulatory requirements, if the product is equally simple. Thus, the debate is that the complexity of the policy should be used hand in hand with the need for products to be simple. However, there are elements such as requiring the insurance company representative's signature (since digital signatures are not available, this situation is complicated). In practice it has been preferred the use of the individual certificate of insurance. Having studied some of them, we found that even though they contain minimal information on the insurance conditions, these conditions presented in summary form provide the information required by the "required content" of the policy.		It is important to adopt a system of simplified policy, similar to a coverage summary such as this individual insurance certificate; referring in its content to the ability to access or request the policy in case it is needed (for more information See Section 4). Such policies must respond to standard clauses that should be designed between the SSF, ASES, and insurers. */SSF, insurance entities/ASES* This scheme should allow for the possibility that insurers use *Infogrames* to facilitate understanding. Besides that, insurers must provide an insurance card (see section 4 for further information). In addition to the policy, the insurer can design and distribute general flyers explaining the way to file claims and conflict resolution.	
	<u>Requirements Prior to execution of the contract:</u> For personal insurance, it is required to undergo a medical examination and/or to fill out questionnaires. To avoid such exams the current practice is group insurance. The insurability report plays a key role in microinsurances as a mechanism to select risks. However, evidence shows that many insurance claims lack information about its existence and the effects of failing to declare or not declaring the risk status accurately.		In the process of simplifying underwriting, either to mass or microinsurances, it is recommended that one of the characteristics of such products be precisely removal of such requirements. It is essential to provide in the simplified policy, not only rights but also obligations of the consumer. */SSF, insurance entities/ASES*	
	<u>Right of withdrawal:</u> There is a 15-day right of withdrawal from the delivery of the policy.		This right of withdrawal must be informed in a simplified policy. */Insurance companies /ASES*	

9. Payment of premium	There is a grace period of 30 days from the expiration of the legal standard term.		This grace period should be informed in the simplified policy. */Insurance /ASES entities*	
10. Loss Claims	<u>Notice:</u> five days to notify the occurrence of the claim except as otherwise agreed		This term for reporting should be informed in the simplified policy. Likewise, we suggest that the term of notification for microinsurances be extended and/or reduce penalization for noncompliance with such term. This situation is justified because the consumer might not be aware of such notice obligation, or he might not know the extent of such breach. /Insurance entities/ASES	
	<u>Presentation and documents needed to file a claim:</u> It is evident that most individual insurance certificates used in microinsurances in El Salvador, there is a list of documents required at the time of submitting the claim. This practice is quite positive. However, there are no plans to establish a deadline for requesting documents. It even states that the insurer is entitled to require the insured or beneficiary to provide all necessary information. Because of the characteristics of the population under microinsurance, some of the documents required are generally difficult to obtain. Even more those that require the opening of a judicial proceeding to authorize the payment, which is necessary for fire insurance – according to the Commerce Code. This element that constitutes a major obstacle to develop fire microinsurance products.		It is important to standardize the clause with the list of documents requested to verify loss (depending on the product). These documents should be easy to obtain by the beneficiary. The insurer's guild must adopt good practices on this respect, to avoid unjustified requests. The requirement under the Commerce Code, Article 1415 should be eliminated. This is justified because the article containing the judicial procedure that used to be required was repealed by the new Civil and Commerce Procedural Code. */Insurance companies/ASES*	
	<u>Acceptance or rejection</u>: The regulation does not specify the way to deliver notification of acceptance or rejection of claims, or the terms on which such communications should be performed. In the case of rejections, it is not clear whether the insurer is to include the reason for rejection.		In a context of self-regulation, it is important to clarify this and to adopt good practices in conventional and massive insurance and microinsurances. */Insurance entities/ASES*	

	<u>Payment:</u> Payment is due 30 days after the documents and information providing the basis for the complaint are received by the insurance company. If there is no clear determination of when the documents and information providing the basis for the claim to the insurer are received, it is difficult to measure this term for sure. This may lead to excess request of unnecessary documents, thus delaying the date to begin counting the 30-day period.		It is required to more clearly specify the time from which to start counting 30 days to prevent unjustified delay of such term. Self-regulation by insurance companies (for example by implementing codes of conduct establishing procedures, or the standardization of such clause clearly indicating a list of documents required for certain types of insurance) is an appropriate tool for said task. */Insurance entities /ASES*	
11. Contract termination, extension and renewal	The insured and /or policyholder may terminate the contract at any time. The clauses providing for the possibility for the insurer to complete the contract are void. The extension of the contract without the prior consent of the consumer is considered an abusive practice.		In some cases, it is beneficial to agree automatic renewal; however, it is suggested not to change this rule and subsequently assess whether this element is a barrier later.	
12. Handling claims and dispute resolution	The Consumer Protection Law prohibits imposing any clauses setting alternative means of dispute resolution in contracts of adhesion. Its inclusion requires the parties to discuss such clause in common agreement, it is usually included as an annex, and this is to be signed separately.		Integration of standardized clauses is suggested as an indication of the grievance process, claims and dispute resolution. Stating first the complaint to the insurer, then complaint to DAU, or DC, and if they are not resolved, apply any of the following alternative means of dispute resolution (pursuant to the Consumer Protection Law). Conciliation, mediation and arbitration with an abbreviated procedure for minor claims. */insurers /ASES /SSF*	
	All insurers must have a system of care to the consumer. However, the requirements of such a system are not accurate.		At this time, we do not believe that this item unprotects consumers. However, it is important to let consumers know about the existence of this system and that the mechanisms to use it are accessible considering their hardships. */Insurance /ASES entities*	
	The alternatives that the consumer has to resolve complaints and disputes are a complaint with the DAU, a complaint to the DC, SSF conciliation, conciliation, mediation and arbitration before the Dispute Settlement Center in DC. All these means are		The consumer should be aware of these alternatives. It is therefore important to analyze in detail if not include the clause in which the possibility is agreed that conflicts are resolved in this way, actually protects the consumer. */Insurance*	

	free. The latter is very positive for microinsurance arbitration with simplified procedure for small claims.		*/ASES /SSF entities*	
13. Cross-cutting issues consumer protection	The consumer protection system of El Salvador qualifies as appropriate for microinsurances (except the items listed above). Two elements must be highlighted. First, the National Consumer Protection System (SNPC) coordinated by the DC, and composed by the executive agencies and other state institutions having competition to ensure consumer rights in this sector. The financial sector system is composed of the SSF, BCR, BANDESAL, etc. Second, the important role played by the DC. It is noteworthy that they are making efforts to ensure its presence in remote areas through initiatives such as the Mobile Advocacy. Through this, mobile centers are established in various municipalities. This is indispensable to bring advocacy near microinsurance consumers; so is the "hot-line" to receive complaints and advice. The "online advocacy" system through which complaints are filed and advice is provided.		It is suggested to support the DC to receive training on the specifics of the massive insurance and microinsurance. It also suggests that DC may include advice on financial products and insurance. Emphasis is made on rights and obligations, including the right of withdrawal, and the obligation to declare the risk status, etc. as the items to consider before hiring any insurance. */insurers. /ASES/SSF*	
IV. MICROINSURANCE MARKET - SUPPLY AND DEMAND[2]				
A. SUPPLY				
Insurers				
1. Insurer of microinsurance products	Most of products labeled as microinsurances are provided by licensed insurers.		N/A	
2. Informal insurance	While there are some examples of products similar to insurance (this is why they are referred to as informal insurance in this study) accessible to the target microinsurance population in El Salvador, it is not a current problem. So far, most of such products have been considered		As microinsurances supply evolves in the country, programs that are similar to informal insurance are likely to multiply. In this case, SSF should note that the IAIS emphasized the importance of formalization. Thus, SSF must prepare and go delineating certain criteria	

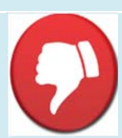
[2] The study did not include an analysis of the demand for microinsurance; however, some findings that are of interest to the organization of strategies are added.

	as assistance. However, SSF does not have any objective criteria to be used to set a demarcation between insurance product and assistance.		in order to decide whether it is insurance or an assistance program. For this, SSF can take into account the principles of insurance, including risk diversification through a mutual fund, the nature of the service offered and how to calculate it. */SSF y BCR*	
3. Interest in microinsurance	All insurers interviewed expressed interest in joining the microinsurance business. There is general awareness that not all mass insurance is microinsurance but some microinsurances may be massive, where the premium price plays a key role in such determination		Disseminate information on microinsurance to insurers. Share global experiences. */ASES, SSF, Development Agencies (USAID, GIZ, IDB, etc.).*	
4. Possibilities for self-regulation	Of the 21 insurance companies only 11 are part of the insurer guild ASES. This limits the ability of self-regulation of industry and likewise can hamper the progress of microinsurances. Such is the case of the creation of databases of products, financial education strategies, standardization of terms, etc. This lack of adhesion is mainly due to differences between entities belonging to insurers and financial associations that are not part of such unions. Similarly, comments are that there is high cost for little benefit.		It is imperative to spur the guild unification agenda. The possibility of creating a committee of microinsurances in ASES where entities –unionized or not– may participate is recommended. This will spur the issue of microinsurances as a guild and likewise such a committee may operate as a common denominator to unite the sector. The positive environment for self-regulation creates an alternative to solve market failures through regulation. */ Insurers/ASES/SSF*	
Distribution Channels				
1. The most used channel	Definitely, the most used channel is MFI. However, it is widely underutilized, because it is often limited to providing only credit-linked products.		It is urgent that alliances between insurance institutions and MFIs focus to empower this channel the most. It is therefore important that the MFI takes a more active role in identifying customer's needs. */ Insurers/ASES/MFI*	
2. The most used channel How is it used?	Few MFI are involved in the value chain microinsurances as "mass merchandisers." Actually, there are very few that are registered as such. They stated that these are not registered because in many cases they do not meet the requirements of the regulation of mass marketing.		As provided under the regulation and supervision section, it is suggested to decrease the requirements of mass merchandisers, so that important scope entities may participate as such. It also recommends establishing clear criteria for the management of group insurance in the context of massive insurance. While acknowledging that the group insurance is	

	In this context, MFI operate as insurance contract holders, and their customers as insured, whether or not one of the MFIs has insurable interest.		ideal for decreasing costs and risks in the selection of "risk" (to avoid adverse selection and moral hazard), it is noteworthy that massive insurance should generate the same reduction in costs and risks in the selection of risk for both individual and group subscription. / *insurance companies/ASES/SSF/MFI*	
3. Insurance as a differentiating factor between MFI	Insurance offered by an MFI begin to constitute an added value taken into account by customers when selecting MFIs. Thus, insurance is positioning itself as a competitive factor.		This is very important and it should be promoted. It is suggested that insurers, individually or in guild entities come to MFI and submit to them the types of products offered, opening channels for them and MFI to design products tailored to the needs of the consumer. / *Insurance Companies, ASES, MFI.*	
4. However... not all MFI appreciate the importance of risk management	We found that some MFI are unaware of the importance of risk management to its customers, to ensure the sustainability of the MFI and to ensure the efficiency of loans granted to customers.		Insurance companies should promote the importance of risk management in such cases. The National Strategy for Financial Education has established itself as a suitable tool to create awareness of the importance of risk management. / *Insurers/ASES/SSF/MFI*	
5. Training the Channel	During the visit, a flaw in training channels became evident, particularly in the operating personnel. Product conditions s are not clear (a complication that increases when offering different types of products). There is confusion about what insurance should be promoted more, the credit life insurance or any other insurance.		It is important that insurers comply fully with training obligations they have with respect to their mass marketing channels. Financial education programs' design must include modules for operational staff from channels used. We suggest an analysis of efficiency and impact of current training obligations laid down in the mass marketing standard. Microinsurance will likely adapt as market evolves. / *Insurers/ASES/SSF/MFI*	
6. Channel innovation	Innovations in channels are limited, and relatively recent; however, there is evidence of a growing interest in exploring these and other alternative distribution channels, particularly by insurance companies that are not part of any financial conglomerate.		It is imperative that insurers innovate in the use of channels. It is expected that the suggested change to reduce the requirements to mass merchandisers may generate innovation. / *Insurers/ASES*	
7. The role of the insurance intermediary	It was evident that some brokers participate in the microinsurance value chain. Such participation is primarily represented in the design of products, and consumer advice – vital in the microinsurance value chain.		It is important to disseminate knowledge related to microinsurance through professional insurance intermediaries so that they participate in the evolution of microinsurance market. Today it is completely revalued they are relegated	

	However, both brokers and independent agents confirmed the difficulty to enter this market, particularly due to the mass marketer.		to the microinsurance value chain. As a control, its use can be encouraged for reducing requirements to mass marketing channels. */BCR, SSF, ASPROS, ASES, etc.*	
8. Motivations to select the channel	The motivations of insurers to select the channel entities are mainly: reputation, scope it has, which is supervised or subject to some self-regulation, and cost.		ASES, insurers retain and strengthen the idea that a channel that has supervision or self-regulatory systems, is a channel that generates a low reputation risk, and therefore should take precedence. /.	
Trading platforms				
1. Financial correspondents	Currently the use of financial correspondents is limited to the collection of the premium and in some cases payment of compensation. No evidence was found of any financial correspondents promoting and placing insurance as part of the bancaseguros network.		It is important to promote more actively the use of financial correspondents for the promotion and placement of insurance. / *ASES, insurers, MFI that can use financial correspondents*	
2. Cell Phones	There is no evidence of the use of mobile phones as transaction platforms in the microinsurance value chain. The financial inclusion law that anticipates electronic money is under discussion.		Spur the agenda in the adoption of the inclusion financial law. */BCR and SSF.* Conduct studies on the level of public confidence in mobile phones to conduct transactions. */ANP, ASES, ABANSA, BCR, SSF.* Start pilots to begin using cell phones for sending SMS informing about the product, time bonuses, and then evolve to gather information and payment. ASES and insurance companies, in partnership with wireless carriers, *SSF, SIGET.*	
3. Call centers	Such platforms are used to transmit information about the product and improve the contract by means of a recording. The policyholder receives the policy then and in that case has the right to withdraw. Payment is made by credit card. Some consumer protection issues have arisen, because consumers consider the call an advice and not as the purchase of the product.		The impact of this platform on microinsurance, more for counseling, and follow up after purchasing insurance. Penetration for these two aspects is suggested. *ASES and insurers.*	
4. Remittance companies	Many MFIs have agreements with remittance companies. Thus, MFIs are the point of contact for the delivery of remittances even to non-MFI customers. Similarly, remittance companies can have independent offices, which can serve as a platform for payments.		Given the importance of remittances in the country and the fact that 20 out of 100 people are receiving remittances such companies should be further enhanced as mass marketing channels and trading platforms. *ASES and insurers.*	

5. Use of new technologies	Evidence of some MFI using sophisticated technology tools such as bar codes, and other computer systems to facilitate the transaction of products offered was found. This is particularly for collecting monthly payments of credit products.		Promote the use of these platforms in the microinsurance value chain and replicate them through other channels. *MFI, ASES, insurance companies.*	
Products				
1. Credit life insurance as a platform	In El Salvador, credit life insurance may secure the unpaid balance of the debt or the amount of credit granted. In the latter case, credit life insurance provides added value to the consumer. Similarly, some MFIs are currently distributing voluntary insurance products using a credit life insurance platform.		Encourage the development of credit-linked insurance with value for consumers. Use and promote the use of credit life insurance as a platform for offering voluntary insurance products, but emphasizing the voluntary insurance other than credit life. Apply appropriate market behaviors for these products, ensuring that consumers are aware of their benefits, claims processes, and advertising payments. Creating insurance awareness and importance depends on an adequate exposure to these products. *MFI, ASES, insurers.*	
2. Slight product innovation	Most products offered are life insurance, whether credit life insurance, personal accident and in some cases, funeral insurance. Similarly, these products are mostly related to credit, and rarely take into account other consumer needs. There is an interesting trend to add value to insurance such as personal accident, through included coverage for medical expenses, or medication. In this context, Seguros Futuro is the exception, as it has been innovative in its product offering. These life insurance products are linked to remittances, they cover remittance amounts over a period and in some cases they include the repatriation of the body.		Support the idea that the evolution of the microinsurance market requires the supply of products that are intended to confront the needs of the consumer. This element may be included in the definition of microinsurance adopted. *BCR, SSF, ASES, insurance companies.* Perform detailed market studies supported by the channel, which knows the target population. *MFI channels, insurance intermediaries, ASES, insurance companies.* Promote and support initiatives that seek to offer innovative products, by reducing regulatory barriers to file pilots. *SSF y BCR.*	

3. Marketing products	Interesting methods of mass marketing products were found through discount cards, scratch-cards, and products offered on supermarket shelves.		As microinsurance market evolves, new market mechanisms become apparent. It is important not to impose regulatory constraints in this respect. Those included in the law on consumer protection are considered adequate. *MFI channels, insurance intermediaries, ASES, insurance entities.*	
4. More tangible products	The MFI operating personnel interviewed Identified, that in some cases customers will require repayment of the premium, because they see no tangible benefit in insurance. The use of cards and scratch-off cards may seem like more tangible products, but the experiences are still very few.		On innovating in products, they should consider offering tangible benefits in life insurance for the policyholder and/or insured. The role of the channel is essential for the task of identifying the tangible benefits. *MFI channels, insurance intermediaries, ASES, insurance entities.*	
		B. DEMAND 		
1. Target population with current access to insurance **2. Most popular products**	There is no information to characterize the microinsurances target population in El Salvador. Such input would identify for sure what their perception is of risk, the insurance, the insurance industry, the supervisor, the bodies responsible for consumer protection, etc. is. All these elements are essential to create specific strategies for the design of potential products necessary and channels that generate trust, and a focus on issues such as financial literacy.		It is imperative to promote studies of demand (quantitative and qualitative) that can serve as the basis of both the entities involved in the supply of microinsurance products, the supervisor, regulator and the public sector in general. An opportunity that was demonstrated during the visit is the excellent work done by the DIGESTYC with Multiple Purpose Household Survey; in this context, it is suggested to integrate specific questions about the Access to financial services, particularly insurance and mechanisms of risk management.	
3. Consumer financial capabilities	Even though El Salvador currently lacks adequate tools to assess the status of microinsurance consumer financial capabilities, it was stressed by all participants in the value chain that lack of awareness of knowledge on management risk insurance, applicable procedures		It is important to facilitate demand in the same way that supply should be facilitated and promoted. These strategies are related to those that were presented in the section on public policy, and can be summarized as follows: include insurance in	

	and low financial literacy are some of the constraints for offering products to this segment of the population.		government programs, include insurance in the financial inclusion policy; include insurance in financial education strategies, analyze the possibility of adopting some mandatory insurance, etc.	
4. Current status of financial education strategies	The National Strategy for Financial Education is a very important achievement in El Salvador, but it has limits in relation to its impact and applicable methods. This strategy is based on workshops, radio programs, etc. Insurance has only recently been included in the National Financial Education Strategy. There is no clear link between suppliers in this strategy. We identified two strategies for financial education for microinsurance Seguros Futuro and ASOMI offered by REDCAMIF.		The Committee on Financial Education should analyze financial education methods and strategies used in other countries and by specialized agencies. Particularly, the efforts made in Brazil, Colombia, Russia, and those made by Microfinance Opportunities, OECD should be considered. It is important to involve industry in this process and to generate a private public debate to orient such strategies.	
5. Right to consumer education	The Consumer Protection Law provides for the right to education and training consumer, a right for which a clear correlative obligation was not established. It was simply stated that the DC and the Ministry of Education would be its promoters.		It is important to clarify the scope of recognition of this right.	

Table 1. Findings, constraints and strategies

1. INTRODUCTION

This study is framed in the "USAID Project for Improving Access to Financial Services" (the project). The project aims to support BCR and SSF, to create and/or improve the regulatory and supervisory framework to facilitate and promote the provision of suitable products to microinsurance and small Salvadoran business services. In the context of the Project, USAID has provided support to encourage an appropriate regulatory framework for financial inclusion, particularly concerning banking correspondents and the use of electronic money.

As part of such support to strengthening access to financial services in El Salvador, the project included the promotion of microinsurance in its agenda.

The relevance of including this aspect is obvious because insurance is presented as an effective risk management mechanism for the most vulnerable segments of the population; however, its penetration in these sectors remains very low in El Salvador. Concerning this, the study "The landscape of microinsurance in Latin America and the Caribbean" (Microinsurance Panorama ALC) for example, said that only 130,000 persons are covered by some "microinsurance" in El Salvador (McCord, Tatin-Jaleran, & Ingram, 2012).

Considering the statement above and the fact that El Salvador does not have any comprehensive information about existing microinsurance products on the market nor about what institutions offer them –and if the current regulatory framework is conductive to promoting them. The project concluded that it was necessary to make a consultancy that could become a tool to serve as a basis to promote microinsurance in El Salvador.

1.1. Objective

According to the Terms of Reference (ToR) the objectives of the consultancy are:

> *"(...) to assess the current environmental status of microinsurance in El Salvador and propose a strategy to promote microinsurance to determine the most effective way in which the key actors, regulators such as the Financial System Superintendence (SSF) and the Central Reserve Bank (BCR) and microinsurance operators, promote and expand the market, to promote the sound development of the industry.*
>
> *This initiative will cover all aspects of the insurance value chain, including the holders of risk managers, brokers/channels, customers, transactional platforms and the role of technology in facilitating such transactions. As a complement of this initiative and based on experience in the field of microinsurance projects, it is intended that the consultant may include proposals and recommendations on products that have been successful in other countries and may be applied to El Salvador."*

The objectives may be summarized as follows:

1. Provide a detailed analysis on the status of microinsurance market in El Salvador.

2. Suggest a strategy to promote microinsurance covering all aspects of the "microinsurance value chain" and include all participants (see Figure 1). Among them, regulators such as the Financial System Superintendence (SSF) and the Central Reserve Bank (BCR), as well as insurers, distribution channels, insurance intermediaries, transaction platforms, consumer and any other entity that helps to promote and expand the microinsurance market sustainably and financially responsible.

3. Present suggestions and recommendations on potential products and channels.

According to the ToR, the deliverables of the consultancy are:

1. Work Plan for the consulting requested, that would contain all the details of planned activities, what institutions would be involved and how each staff of the institutions would be involved in such activities.
2. Evaluating microinsurance current environment
3. Identifying gaps in market development and areas that need improvement and/or strengthening.
4. Recommended strategy for key actors to create a solid microinsurance market that may effectively serve the needs of low-income families on a larger scale.

These deliverables are provided herein as follows:

Deliverable	Location in the report
1. Work plan of the consultancy	Section 1.2. (Method) and Annexes I and II
2. Evaluation of the current environment of microinsurance s	Section 3
3. Identification of gaps in the market development and the areas requiring improvement and strengthening	Section 4
4. Strategy	Section 4

Table 3. Deliverables of the Study

1.2. Methodology

The study was conducted in three stages: (i) initial desk research, (ii) submission of a questionnaire to "participants in the microinsurance value chain" in El Salvador in order to have a preliminary overview of the market (the questionnaire is in Annex II), and (iii) design a roadmap for the visit to El Salvador.

At the outset, it is noteworthy that in the study all actors involved in the processes of designing, marketing, sales, underwriting, administration, claims and payment of microinsurance products (this latter is also the value chain of conventional insurance) are considered "participants in the microinsurance value chain." Similarly, given that the "microinsurance consumer"[3] is characterized by lacking understanding of insurance, contractual tools used in the informal economy, grievance mechanisms and conflict resolution (plus a lack of effective access to them) processes that seek to empower consumers such as financial education, counseling and consumer advocacy, conflict resolution, should be added to that value chain (see Figure 1).

[3] *In the Study microinsurance consumer means the policyholder, insured or beneficiary of an insurance contract.*

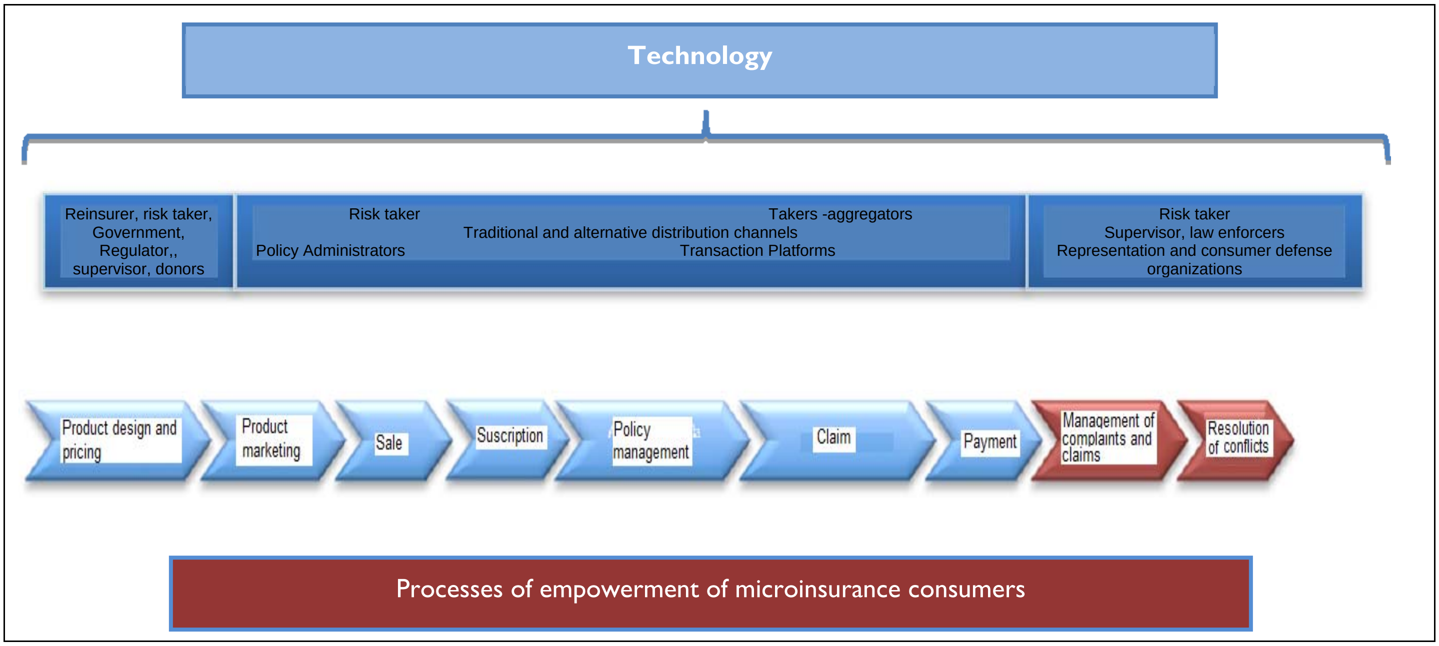


Figure 1. Participants of the value chain of micro insurance

Participants in the microinsurance value chain are not the same as those participants in the value chain of conventional insurance (regulators and supervisors of the insurance business, reinsurers, insurers, brokers, traditional distribution channels, policy managers, etc.). In this context, alternative distribution channels,[4] innovative transactional platforms that can be used should be considered; government entities involved in making public policy decisions that could impact the offering of these products, not just financial regulatory and supervisory bodies, but other channels may be involved in the market sector. From this point of view, the participants in the microinsurance value chain in El Salvador are mainly:

Donors and other support entities	Regulators, Supervisors and self-regulation	Guilds	Risk takers and reinsurers	Distribution channels and transaction platforms	Consumers and consumer protection agencies
USAID Inter-American Development Bank GIZ Development Bank of El Salvador (BANDESAL) National Commission for Micro and Small Enterprises (CONAMYPE) Ministry of Economy Ministry of Environment Ministry of Agriculture and Livestock Social Inclusion Secretariat of the Presidency	SSF BCR INSAFOCOOP (National Institute of Cooperative Development) FEDECACES (Federation of Savings and Credit Cooperatives of El Salvador)	Association of Insurance Companies of El Salvador (ASES) Salvadoran Association of Insurance Producers (ASPROS) Salvadoran Association of Insurance Brokers Societies (ASSACORDES) National Association of Private Enterprise (ANEP)	21 authorized insurers, including an insurance cooperative (Seguros Futuro) "Informal insurance" providers Reinsurers	Bookers Agents Credit and savings cooperatives Credit unions Foundations NGO's Credit Unions Drugstores Department stores Cell phone companies (TIGO, Claro) Membership organizations	Consumer Advocacy

[4] The alternative distribution is defined as "*voluntary microinsurance marketing through partnerships with entities that traditionally have not been present in the distribution model of insurance, excluding as alternative channels of distribution models by focusing on risk MFI credits (bancassurance).*" (Camargo & Montoya, Microinsurance: remarkable experiences in Latin America, 2011)

Donors and other support entities	Regulators, Supervisors and self-regulation	Guilds	Risk takers and reinsurers	Distribution channels and transaction platforms	Consumers and consumer protection agencies
	Superintendence of Electricity and Telecommunications (SIGET)	Salvadoran Association of Microfinance Organizations (ASOMI) Central American Microfinance Network (REDCAMIF) Salvadoran Banking Association (ABANSA)			

Table 4. Participants of the microinsurance value chain in El Salvador

2. During this stage, the hypotheses outlined in the preliminary overview of microinsurance in El Salvador were verified by a field visit that took place between July 15 and 26, 2013. The purpose of this visit was to have the vision of all participants in the microinsurance value chain through interviews and obtaining additional information to be identified during the visit to the country. Several interviews were conducted during the field visit with over 21 participants in the microinsurance value chain. Key personnel from SSF and BCR, insurance operators, Microfinance Institutions (MFI)[5], guilds from insurance companies, insurance brokers, and DC, were interviewed (See Appendix I, which contains the list of respondents). Some interviews were performed in the area of Santa Tecla in order to become better acquainted with the target population. Similarly, we attended the Microinsurance event organized by USAID and FUNDAMICRO during which we could perceive the participants' standing in the value chain. The second stage ended with a presentation to SSF and USAID providing preliminary findings of the visit.

3. Third stage: Upon receipt of the comments on this first draft, they will be implemented and the final report will be presented during the first week of October. In order to ensure the impact of research we recommend analyzing the possibility of presenting it to all participants in the microinsurance value chain in San Salvador with the purpose of organizing discussion groups and work to design a concrete agenda to spur the microinsurance market development in El Salvador.

This study took into account the experience of other countries and international standards that have been developed by the IAIS and the "Access to Insurance Initiative" (A2ii) (the A2ii is an IAIS's partner responsible for implementing the standards on access to insurance, its purpose is to inspire and support supervisors to promote responsible access to insurance). These standards are contained in several documents and tools. Among the latter, the (IAIS, microinsurance features of regulation and supervision, 2007) and (IAIS, Application paper on regulation and supervision supporting inclusive insurance markets, 2012). In this regard, El Salvador recently conducted a Self-Assessment & Peer Review (SAPR) of inclusive insurance, a tool for implementing the IAIS standards). Similarly, the methodology presented by A2ii in Toolkit N.1 "Microinsurance Country Diagnostic Studies: Analytical Framework and Methodology"[6].

Regarding international experience, in June 2013, about 27 countries had regulated or had committed themselves to promote microinsurance via regulation. They include the 13 African states that are part of the Inter-African Conference of Insurance Markets (CIMA), India, Peru, Philippines, Mexico, Brazil,

[5] The term MFI is used generically in this study, which does not mean they do not recognize that institutions offering credit services to the microinsurance target population in El Salvador are characterized by heterogeneity in both their structure and their regulation and supervision. This will be discussed in detail in the microfinance context part of the Study.
[6] This methodology has been and is used by the consultant in two microinsurance diagnostics in Peru and Jamaica, which were commissioned by the A2ii.

Nicaragua, Ghana, China, Nepal, Taiwan, Malaysia, Pakistan and South Africa. These experiences will be cited throughout this analysis.

The study is divided into four parts: First, the **introduction (1)** where, in addition to raising the objectives and methodology of the study, a conceptual framework for microinsurance is provided. Second, the **context (2)**, in which a photograph of El Salvador will be presented, with emphasis on country characteristics that are relevant to the study, that are essential to define insurance products necessary for the microinsurance target population. Third, the **microinsurance market of El Salvador (3)**, a section in which the current status of the insurance offer to the target population will be discussed, with emphasis on the products offered, insurers, delivery channels and transactional platforms used to facilitate access and use of these products. Similarly, an overview of how the microinsurance value chain currently operates such as the case in which the applicable regulatory and supervision framework applicable to this chain is offered. Fourth, **the constraints faced by participants in the microinsurance value chain –**for this to develop properly and responsibly, along with strategies to overcome these constraints and promote microinsurance and protect microinsurance consumers– will be presented. In presenting these strategies, we will emphasize the role of each party of the microinsurance value chain **(4)**.

1.3. Conceptual Framework

This section constitutes the roadmap of the Study, which provides the basis on general aspects of microinsurance. The interest of presenting a detailed conceptual framework is a response to one of the most important findings of the study, which was the lack of microinsurance awareness by the participants in the value chain, microinsurance is constantly confused with "popular insurance"[7] social insurance, insurance distributed through banks (bancaseguros) and mass merchandisers.

First, the definition of microinsurance will be presented as it was adopted in the Study (1.3.1.), second, the microinsurance target population is identified (1.3.2) third alleged benefits of microinsurance are highlighted for both the States and consumers (1.3.3.).

1.3.1. Definition

Although the idea of providing insurance access to the "poor" is old, the concept of "microinsurance" has been coined over the last decade. This is because the great promoter of microinsurance has been the emergence of "microfinance."[8] They have made it possible to identify the need for protection of this segment of the population (Hintz, 2010). Thus, for the last ten years there has been a range of definitions of microinsurance. One of the most authoritative definitions in the market is that of the International Association of Insurance Supervisors (IAIS English initials), according to which microinsurance is:

> "*Insurance that is accessed by the low-income population, provided by a variety of different entities, but it is handled in accordance with generally accepted insurance practices (which should include the Insurance Core Principles). This means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums. Therefore, the activity of microinsurance itself falls within the scope of the regulator/supervisor of relevant domestic insurance or any other competent body under national Law on any jurisdiction.*" (IAIS, aspects of regulation and supervision of microinsurance, 2007).

[7] Article 1493 of the Commerce Code provides the so-called popular insurance as follows: "In popular insurance the insurer undertakes the obligation of the insurance itself in exchange for regular premium payments without compulsory medical examination. The insured capital shall not exceed five thousand colones (US$570) in capital or equivalent income. When market conditions warrant so, the Ministry of Economy may vary the limit specified."(The dollar amount has been added).

[8] In this study, microfinance is defined as the practice aimed at increasing access to financial services excluded from financial services.

This definition highlights three characteristics: (i) the target population, in this case the "low income" population, (ii) the application of accepted principles and practices in insurance, (iii) the jurisdiction of regulators and supervisors to know the topic of microinsurance.

Several countries have adopted definitions of microinsurance, which are aligned, some more than others, with the definition of the IAIS. For example, two countries in Central America, Nicaragua and Panama, have already adopted this concept in their regulation. In Nicaragua, microinsurance is defined as:

> "*Contract under which protection is granted against specific risks and is limited to low-income individuals and small entities, in exchange for payment of low cost premiums*[9]" (*Emphasis added*)

In Panama, it was defined as:

> "*Financial mechanism intended to protect low-income individuals against specific risks such as accidents, illness, deaths in the family and natural disasters, in exchange for regular payment of premiums for insurance that fits their needs, income and income bracket. Microinsurance is aimed primarily at low-income workers, especially those in the informal sector, who are often neglected by the usual traditional insurance schemes*[10]" (*Emphasis added*)

Box 1. The concept of microinsurance in Brazil

The concept of microinsurance in Brazil

SUSEP's concept of microinsurance is:
1. A financial service providing social protection.
2. It must necessarily be offered by an authorized supplier under the law and subject to regulation and supervision.
3. Target population is the one with low income, including people working both in formal and informal sector.
4. Premiums must be proportional to income and costs of risks to be insured.
5. It must comply with globally accepted insurance principles.

This definition was recently adopted an amendment of the 3.266-C Draft Law on 2008, currently under discussion at the National Congress.

(Giordano Simões, Ribeiro Salles, Nacimiento Vieira, et. al., 2008, page 14)

Other Latin American countries have adopted similar definitions of microinsurance including Brazil, Mexico and Peru.

Microinsurance in Brazil is intended for low-income and/or the individual microinsurance entrepreneurs, who must meet certain requirements (see Box 1).[11] To specifically identify the low-income population, the Advisory Committee of the Microinsurance (CCM) established by the National Council of Private Insurance (CNSP), and shaped by the Superintendence of Private Insurance (SUSEP) and market representatives, adopted as a translation of low-income population "*segment of the population with per capita monthly income of up to two minimum wages, whose employment position can be classified in both the formal and informal sectors of the economy*" (Giordano Simões Ribeiro Salles, Nacimiento Vieira, & al, 2008, page 25).[12] Recently; however, Resolution 440/2012 SUSEP provided in Chapter II the criteria that should be considered in the technical note to be filed by the insurance companies who want to register their products and microinsurance. These include geographic, social, economic, behavioral indicators. This resolution also sets the limits of the amounts insured.

[9] General Law on Insurance, Reinsurance and Bonds (Act 733) dated July 15, 2010.
[10] Act 12 dated April 3, 2012 "regulating the business of insurance, and other provisions."
[11] Resolution of the National Council of Private Insurance (CNSP), 244, Provisions on microinsurance operations, brokers and related microinsurance, 2011.
[12] To identify individual entrepreneurs CNSP Resolution 244/11 referred to the definition of individual entrepreneurs adopted in Complementary Law N. 123/06 that identifies them as entrepreneurs with a gross income accumulated in the year up to 36,000 reales (approximately US$15,200).

In 2007, the Peruvian Superintendence of Banking AFP's and Insurance (SBS) implemented a quantitative definition in to which microinsurance was a product aimed at the poor, the insured amount could not exceed USD$3,300 and the monthly premium could not exceed USD$3.30.[13] However, in 2009, the SBS modified this definition by taking this time a qualitative definition by which microinsurance is considered an insurance that provides protection for the low-income population, compared to the occurrence of consequential loss of human or economic risks that may affect them.[14] In the case of Mexico, the National Commission of Insurance and Finance (CNSF) stated that microinsurance promotes access of insurance products to the low-income population. Then, Article 23 of the Circular S-8.1 CNSF set maximum coverage amounts and maximum monthly premium for property insurance.

Other countries in the world have defined microinsurance likewise. For example, in India, the Circular "Microinsurance Regulations" of 2005 Insurance Regulatory Authority of India (Insurance Regulatory and Development Authority - IRDA) established the amount of coverage as a criterion to qualify a product as microinsurance. In the Philippines, the Insurance Commission (Commission Insurance - IC) defined microinsurance as any activity offering insurance or similar products that meet the needs of the poor. In this regard, it was considered that a microinsurance product is characterized in that the daily premium could not exceed 5 % of the minimum daily wage and the insured amount may not exceed 500 times the minimum wages.[15] In Pakistan, the "Securities and Exchange Commission" (SEC) recently defined as microinsurance any insurance products aimed at low-income population, and subsequently established caps on the amounts insured[16].

Along with these "theoretical" definitions, in some cases with an operational scope, there are also efforts to prevent the definition of microinsurance as such, and rather emphasize certain characteristics that are inherent to microinsurance. The Dynamic Allianz and the German Development Agency (GIZ) developed a tool for the identification and evaluation of microinsurance products called "*Can we call it micro? Good micro*" (ALLIANZ & GIZ, 2013). This tool enables the identification of a product as microinsurance by using four parameters: (i) application of insurance principles, (ii) that it is a developing country or an emerging market, (iii) the vast majority of individuals or goods insured belong to the low-income segment and (iv) they do not have government subsidies of more than 50 %; by analyzing 5 other parameters we can verify if it is a good microinsurance product (see Table 5).

In the same vein, the LAC Microinsurance Panorama used the four following criteria to define microinsurance: first, the target population is low-income population, second, the risk is borne by the private sector, third, the product must be profitable or at least sustainable, and finally the product should have little or no subsidy. Regarding mass insurance, it is clearly stated that these are always included as they meet the criteria previously established (McCord, Tatin-Jaleran, & Ingram, 2012).

[13] Article 3, SBS, Resolution 215 of February 27, 2007.
[14] SBS Resolution No. 14283-2009, October 29, 2009.
[15] Articles I and II of Insurance Memorandum Circular No. 9-2006 HF, October 25, 2006.
[16] SFC Draft Rules on Microinsurance 2013.

Objective	Criterion	Description
Is it microinsurance?	**A. Application of insurance principles**	Application of Basic Insurance Principles (IAIS), application of the large-number law, etc.
	B. It takes place in a developing country or an emerging market	The country should be classified as such.
	C. Most insured individuals or goods are from low-income population	About 80% should come from low-income population. Low-income means the lower 3 quintiles. Please note that no study or analysis is required to determine this.
	D. No government subsidies exceeding 50%	Over 50% of subsidy creates a "social insurance" scheme
Is it a good microinsurance product?	**1. Greatly contributes to end-consumer's risk management**	The product must offer an alternative risk management to a dire need.
	2. End consumers receive other tangible benefits	Additional benefits for the insured amount or balances in kind. These may include discounts, visits to the doctor, lottery tickets, etc.
	3. End consumers are involved in product development	Products that have been developed to meet the needs of end consumers may be verified.
	4. They are voluntary or mandatory	Voluntary subscription products rate higher, voluntary termination products rate average. Mandatory insurance products and credit life insurance rate negative, except when they have added value.
	5. There are mechanisms for consumer education and feedback	Systematic use of brochures, talks, financial education programs, hotlines, appropriate claim management mechanisms.
	6. Product specifications are simple	Simple policy, little or no exclusion, easy subscription.
	7. Adopt measures to ensure low transaction cost	Use of alternative distribution channels. Link insurance with other services e.g. credits, savings, airtime, purchase of fertilizers. Subcontracting third parties for gathering information and premium collection.

Table 5. Is it microinsurance or not? Does it have value or not?
(ALLIANZ & GIZ, 2013)

These theoretical and operational definitions lead us to identify the characteristics of microinsurance, which serve to differentiate it from conventional insurance. Such differences may be summarized as follows (see Table 6):

ASPECT	CONVENTIONAL INSURANCE	MICROINSURANCE
CONSUMER	Usually contracted from middle or upper classes in developed and developing countries Consumers are usually familiar with insurance benefits	"Poor" population in developing countries and developed countries. (We do not agree with Allianz position where microinsurance is available only in developing countries. Some developed countries have "poor" population, it is excluded from conventional insurance and this population may be eligible for microinsurance programs. An example is France where "Entrepreneurs de la Cité" has a microinsurance program intended for local population in poverty) Microinsurance consumers are not familiar with insurance and benefits. They are characterized by social exclusion; they come from informal economy and lack knowledge on contractual tools in the formal economy.
RISK TAKER	Risk taker is a licensed insurer, regulated, and supervised, with the required specific corporate structure. They are insurance companies (corporations), insurance	Risk takers may be a regulated and supervised licensed insurer. However, other organizations may also offer these products (similar to insurance) in practice, informal insurance. For example, self-help groups (cooperatives,

ASPECT	CONVENTIONAL INSURANCE	MICROINSURANCE
	cooperatives, mutual insurance.	mutual funds, etc.), credit agencies offering auto insurance, etc.
DISTRIBUTION CHANNEL	Insurance distribution is directly to consumer or through intermediation of insurance professionals (bookers, agents, agencies, etc.) or alternative channels for mass insurance, including financial institutions (traditional distribution channels) and department stores.	Microinsurance distribution relies mainly on direct sales and the use of alternative distribution channels that are not insurance professionals. In this case, the professionalism of the channel is overpowered by the closeness and trust that the consumer has with the channel.
PRODUCT CONCEPTION	All risks may be covered, except those prohibited by law.	All risks may be covered, except those limited by law. Greater emphasis is given to the fact that the products offered meet the real needs of the target population.
	Coverage and usually complex features include exclusions, franchises, grace periods, deductibles, etc.	Microinsurance products should be simple and avoid as much as possible the use of exclusions, grace periods, franchises, deductibles, etc.
	Group and individual fees are used.	Group fee is privileged; individual pricing makes the premium more expensive and therefore inaccessible.
	The actuarial bases available for some pricing are somehow sufficient.	Given that this niche insurance market has not been considered previously, there is no actuarial basis for that particular market segment
CONTRACT	Insurance policy is a complex document; its terms are unique to the activity and insurance law.	Insurance policies, and in general all contract documents, need to be simple and appropriate to guarantee consumer's understanding.
	Contract documents are very carefully regulated; it is assumed that these let the consumer familiarize with the product and its conditions.	The writ, as a way of written consent is reevaluated.
	Specific care is given to the risk state declaration and risk verification before subscribing an insurance contract.	Elements of risk verification are avoided, to prevent hindering subscription. General insurance statements are presented. Most of the time there are no questionnaires to fill out.
PREMIUM	Premium is adjusted to risk conditions and the product offered; risk verifications are implemented to prevent inaccurate pricing.	The calculation of the premium follows the principles of insurance; however, it must be guaranteed to be affordable for policyholders. In some cases the premium may be subsidized by the state or by others participants in the microinsurance value chain.
	The premium is collected in cash, or in most cases, by automatic debit to bank accounts.	The premium is collected in cash or associated to another operation, such as credit reimbursement or the purchase of a good or service.
	Payments are usually annual, semiannual or quarterly.	Payments must be in line with cash flow irregularities of the microinsurance consumer.
	Default in payment generally results in suspension of coverage or termination of the insurance contract.	The implementation of grace periods is common.
COVERAGE	The amounts insured are variable and in some cases, they are high.	The amounts insured are high.

Table 6. Difference between conventional insurance and microinsurance

Consequently, some common denominators that must be taken into account when defining microinsurance are evident:

1. The target population addressed is the "poor" workers or entrepreneurs in the informal economy; or low-income workers in the formal economy;[17]
2. Insurance principles apply but it includes informal insurance.[18]
3. These products can receive state subsidies but such subsidies should be minimal.
4. These products are offered to be profitable and sustainable over time.
5. These products are offered by providers (insurers and/or distribution channels) other than those used for conventional insurance. They are chosen based on proximity, speed and connection to the target population.

It is noteworthy that even though microinsurance is part of the strategies to increase access to insurance excluded population, it is not the only one. Indeed, poverty is not the only reason for lack of access to insurance products. However, this is the main reason in emerging economies. In this context, the IAIS has emphasized that promotion should not be limited to microinsurance; the goal is to ensure that the population that does not benefit or has limited benefits of insurance products may have an effective access (IAIS, Application paper on regulation and supervision supporting inclusive insurance markets, 2012).

1.3.2. Target Population

For this study it should be understood that the target population is composed of the "poor" individuals whose income may come both from the informal and formal sector, that have no effective mechanisms for risk management (for example, conventional insurance). This population is also composed of entrepreneurs who lack access to insurance.

In the study the multidimensional poverty concept is adopted whereby poverty is the "*human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary to enjoy an adequate standard of living and other civil, cultural, economic, political and social rights*" (WHO, 2009). In turn the United Nations Development Program (UNDP) adopted this approach by stating that poverty is the denial of "*(...) the most basic opportunities and choices to human development: living a long, healthy life creative and enjoy a decent standard of living, freedom, dignity, respect for self and others*" (UNDP, 1997). An approach that is present in the Human Development Report El Salvador 2010 (UNDP, 2010).

[17] Some countries have chosen to assign a quantitative criterion of the premium and / or the sum insured to characterize microinsurance products. These "operational" definitions are a times necessary for the regulator at the time of creating particular arrangements only applicable to microinsurance products. In such cases, it evidently requires an operational definition that provides specific mechanisms to enable accurate identification of such products.

[18] It does not mean that informal insurance is accepted; it means that in order to identify what may be considered microinsurance in a market one must take into account this type of products as well as the regulations to be proposed, as it was the case in the Philippines.

Microinsurance target population worldwide

In general, the most commonly used mechanisms to identify poor populations have been the poverty lines and in the field of microfinance the concept of "Base of the Pyramid" (BoP). According to this concept coined by specialists in corporate strategy, CK Prahalad and S. L. Stuart. BoP population comprises people with an income not exceeding US$1.500 a year (less than US$4 a day). About 4 billion people (Prahalad, 2004) fall in this bracket. Despite criticisms to this methodology (Jenkins, 2005) (Karnani, 2007) (Landrum, 2007), the "World Resources Institute" (WRI) and the International Finance Corporation (IFC) prepared a report to establish what segment population actually composed the BoP (IFC World & Resources Institute, 2007). The conclusion of WRI and IFC was that the BoP is composed of 4 billion people whose income is less than US$3.000 a year (less than US$8 a day). In theory, those in the BoP would have a purchasing power of US$5 trillion, of which at least US$1 trillion would be available to purchase services and financial services, including insurance products. Even though many criticize the purchasing power of the BoP (Karnani, 2007), it has been estimated that the potential market of microinsurance represent 4 billion people, which could translate into 1.5 to 3 billion insurance policies with a total volume of US$40 billion in premiums (Lloyds & Microinsurance Center, 2010) (Sigma- Swiss Re, 2010).

Box 2. Microinsurance target population worldwide

From this point of view, the concept of poverty in this study is much wider than the description of low-income individuals made in IAIS definition, and contains population classified as "not poor" but deprived in other dimensions pursuant to quantitative measurement systems. The concept of "poor" used to define the target population includes not only the low-income population, but also what has been identified as "vulnerable" population (Ferreira, Messina, Rigolini Lopez -Calva, Lugo, & Vakis, 2013), the target population of "social exclusion," or in short, people who lack the essential and have no access to conventional insurance.

In all cases, a question arises whether the entire poor population may be considered as the target population for microinsurance. Indeed, considering that microinsurance should be sustainable, which means the policyholder can afford minimum payment, the population in extreme poverty would be dismissed as part of the microinsurance target population. In this regard, the IAIS was emphatic in noting that the microinsurance does not include any form of social assistance and emergency to be provided by the State. However, the IAIS said that as risk manager "*the State may determine that there is a need to sponsor access to microinsurance for the underprivileged through redistribution practices. There are cases in which the state plays a stronger role in total funding schemes, but these are only considered microinsurance if handled according to the principle of insurance*" (IAIS, aspects of regulation and supervision of microinsurance, 2007). From that perspective, it would be possible to conclude that the population in extreme poverty could be considered as the microinsurance target population schemes solely on public-private partnerships, in which the state actively participates by providing temporary subsidies of premiums (Ramm, 2011). This makes even more sense in Latin American countries, which have been characterized by the mobility of social classes. This is how the middle class (with daily income of US$10-50) expanded by 50 % from 2003 to 2009 (Ferreira, Messina, Rigolini, López-Calva, Lugo, & Vakis, 2013).

The problem of adopting this material definition is the difficulty of measuring poverty, for which we have adopted the Multidimensional Poverty Index (WPI), which assesses three dimensions: life expectancy, educational attainment and level of decent living, as measured by access to public and private resources. Despite this, microinsurance poverty lines and the concept of the "Base of the Pyramid" (see Box 2) have been the mechanisms most commonly used to identify the target population.

However, such specificity in determining the target population is not necessary in all cases, this is necessary if, for example, at the regulatory level: (i) the target population is the essential element of the definition of microinsurance, and (ii) definition of microinsurance is operational, which means that this serves to clearly define microinsurance products whenever there are specific rules that apply to them; such is the case of Brazil.

1.3.3. The benefits of microinsurance

The "momentum" of microinsurance coincides with the emergence of microfinance. Thus, the potential of it and its insertion into public policies of most countries has been accompanied by adopting "financial inclusion" policies (see Box 3) that have received international support. Thus, the principles of G20 for Innovative Financial Inclusion will provide the critical elements to create an appropriate environment for increasing access to insurance (GPFI & CGAP, 2011).

> Financial inclusion is "*the situation where every adult of working age has effective access to credit, savings, payment and insurance offered by formal suppliers*" (GPFI & CGAP, 2011). "Effective access" is understood as the "*convenient and reliable delivery of services to consumers at affordable prices for consumers and sustainable for suppliers, whereby consumers that have been excluded from formal financial services have access to formal financial services rather than use informal options*" (GPFI & CGAP, 2011).

Box 3. Financial inclusion

However, beyond their inclusion in the discussion of financial inclusion and the benefits it brings in that context, it is important not to lose sight of the inherent value of microinsurance as a risk management tool. Thus, microinsurance has a double validation from the discussion of financial inclusion and from the discussion of risk management as a tool to leverage the country's development, through fighting poverty and promoting economic growth.

One of the causes of poverty is "vulnerability." The adoption of measures for risk management is an essential tool to fight poverty (World Bank, 2001). These strategies are mandatory when: (i) poor population is more exposed to certain risks and yet (ii) does not have effective management mechanisms to reduce, mitigate or manage risks. In this context, if no specific risk management measures are taken, the vicious circle between poverty and vulnerability will not break. It will be harder for households in poverty to get out of this vicious circle, and those vulnerable that are not yet poor, will easily fall into poverty (see Figure 2).

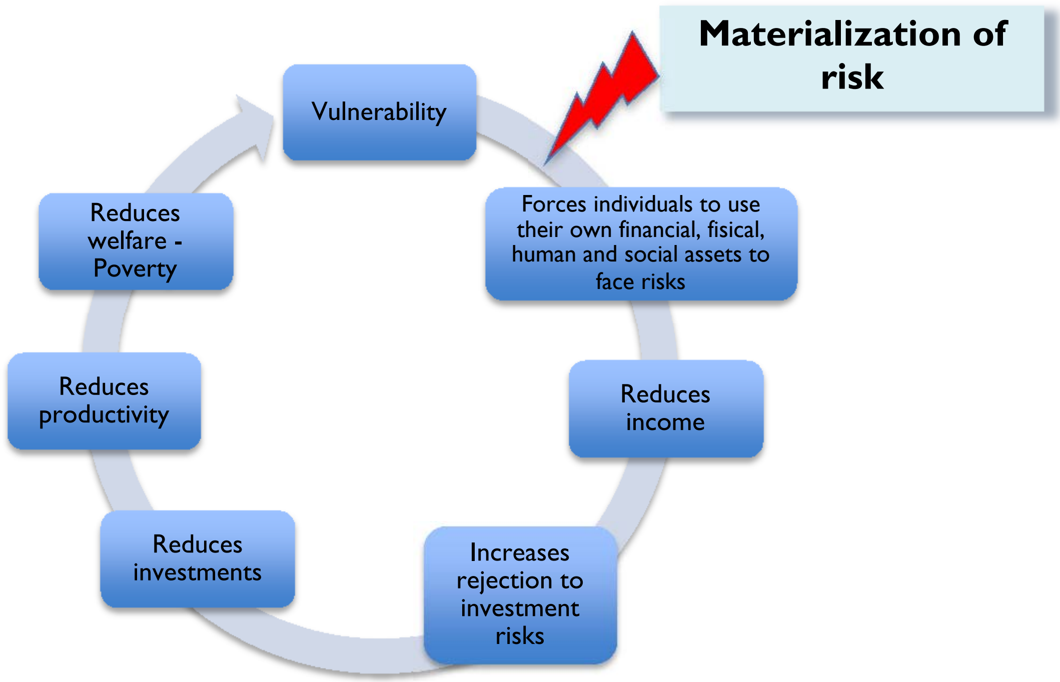


Figure 2. Vulnerability and poverty

From that perspective, we defined the full range of risk management mechanisms aimed at preventing, reducing and eliminating social vulnerabilities that lead to poverty and deprivation, under the concept of "social protection" (World Bank, 2001) (UNICEF, 2012) (Holzmann & Jorgensen, 2000).

In this context, it is ideal for States to adopt measures to promote microinsurance since through them it is possible to provide an effective mechanism to mitigate low-income population (insurance) risks, which serve to break the vicious circle between poverty and vulnerability.

> *"Promotion of safety for the poor population is promoted by reducing their vulnerability to risks such as illnesses, economic shocks and natural disasters and by collaborating to their ability to cope with shocks when they occur"*
>
> (World Bank, 2001)

The effectiveness of insurance is justified as a complete tool that facilitates the fight against poverty and promotes economic growth. Some experts, including Albouy, 2009; Liedtke, 2009; Mosley, Assessing the success of microinsurance Programmes in meeting the insurance needs of the poor, 2009; Mosley, Garikipati, Horrell, & Johnson, 2003; Brainard, 2008; Curak, Loncar, & Poposki, 2009. Outreville, 1990; Ward & Zurbruegg, 2000; Arena, 2008, have noted that insurance may fulfill the following functions:

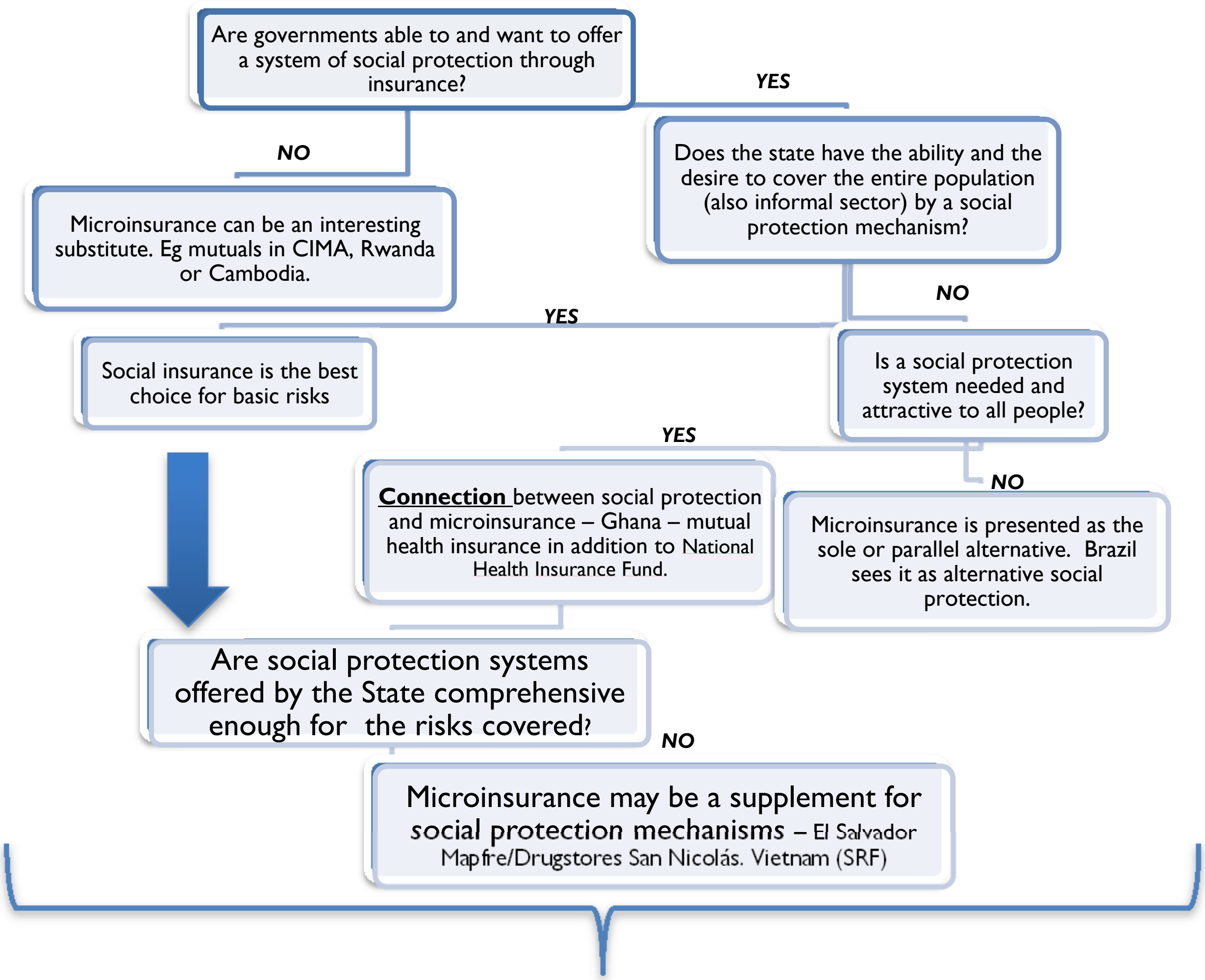
- Reduces the vulnerability and uncertainty of households through risk mitigation.
- Stabilizes the income and expenditure of households. This will reduce their risk levels in their business activities. It will also indirectly enhance the environment for investment and productivity and lead to the generation of employment.
- Promotes and mobilizes savings and consumption.
- Promotes financial stability through the application of the principle of mutuality of risks linked to economic activity.

- Provides for development financing. Insurance facilitates the creation assistance relationships e.g. microcredit.
- Prevents households from facing dilemmas such as the loss in savings for education or family healthcare.
- Increases awareness to avoid exposure to risk and risk management measures.
- Helps maintain dignity, because there is no need to resort in all cases to public assistance when tragedy strikes.
- Insurance plays a complementary role to public risk management policy and in many cases serves to promote the improvement of and access to health services and education.
- Facilitates the use of formal financial services and promote financial education.
- It is presented as an alternative for risk management affecting the whole country, as in the case of catastrophic risks from climatic events, macroeconomic crises, etc.

> *"States party to the Covenant must take effective measures within their maximum available resources, for social security systems to include all people who work in the unstructured economy. (…)These measures can include: c) the respect and support to safety plans developed within a framework of unstructured economy, as microinsurance plans"*
>
> *Committee on Economic, Social and Cultural Rights, General Comment No. 19, the right to social security.*

It is clear that the social impact microinsurance can generate and the role it has to assist States to fulfill their international, regional and national commitments regarding social protection of individuals.[19] Recently it has become quite emphasized how microinsurance may operate as an appropriate tool to make social protection coverage (see Figure 3) (Deblon & Loewe, 2012) (Wiechers, 2013) a reality. This makes even more sense, when we consider the initiative of "SPF" (PPS) adopted by the United Nations, which universal access to essential social transfers and services (such as health, water, education, security food, housing, etc.), particularly vulnerable groups. Throughout this study, dependable microinsurance products with real value can guarantee access to health, food security, housing, through health insurance, agricultural, property, etc.

[19] Social protection is a human right acknowledged locally, internationally and regionally. El Salvador is bound to enforce it. International and regional commitments are the basis for such protection, i.e. the Universal Declaration of Human Rights, Arts. 22 and 25, PIDESC, Art. 9, Additional Protocol to the American Convention on Human Rights on economic, social and cultural rights, Art. 9)



In all cases, microinsurance may operate as a **supplement** to the benefits offered and/or to cover additional risks (i.e. coverage of cancer in Jordan, or *I Vivo Segura* (I live Safely) in Guatemala). These Insurance cover natural disasters (index insurance, example in Peru by Positiva, HARITA in Ethiopia, and Kilimo Salama in Kenya)

Figure 3. **Microinsurance role to provide social protection**
Source: Adjusted chart presented (Deblon & Loewe, 2012, p. 43) with specific examples

However, all these advantages may be driven by microinsurances provided they are simple products with an expedited and innovative process, and provide an actual value to end users through their effective use[20]. This point is essential and has been consistently used at international level in the world of microinsurance. For example, earlier in this document was noted that Allianz and GIZ have created a “check list" of requirements a "good" microinsurance product must meet. Similarly, today there are two essential tools used to assess whether microinsurance products have value for end consumers, these are indicators of

[20] The term “microinsurance consumer” is understood as the taker, the insured and/or the beneficiary, as the case may be.

social performance (Sandmark, 2013) and the tool developed by the Microinsurance Innovation Facility of the International Labour Office (ILO), called "PACE" - "Product, Access, Cost and Experience."

2. CONTEXT

This section presents El Salvador context tools that are vital to attain the objectives of the study. This information is useful to identify insurance products that are necessary for the country and the target microinsurance population to get an idea of potential channels to distribute microinsurance products. First some context aspects of the country (economic socio -political development, including geographic, demographic) (2.1) will be analyzed. It provides an overview of the microfinance sector (2.2.) and the insurance industry (2.3.).

2.1. Country Context

El Salvador, ranked as a country with low average income according to the World Bank, is the smallest in Central America (21,040 km²) country, but the most densely populated (6,249,292 inhabitants in 2012, equivalent to 297 inhabitants per km²) (DIGESTYC, 2013) (ECLAC, 2013). Urban areas are home to over half of the population (62.6 %), the metropolitan area of San Salvador (AMSS) alone is the home of 27.8 % of the total population (DIGESTYC, 2013). The population is mostly young (63.7 % are under 30). By gender, most of the population is women (52.8 % women). The GDP (Gross Domestic Product) of the country for 2012 was US$23.816 billion (US$3,823 per capita) (MFI, 2013). Economic activities that are reported to GDP trade and services (61%), manufacturing and construction (26 %) and agriculture (12%) (ECLAC, 2013). The micro and small enterprises (MYPEs)[21] represent 99.7 % of all Salvadoran companies, and generate 35 % of GDP and 700,000 jobs nationwide (CONAMYPE, 2013). Recognizing the great impact that the MYPE generated for the Salvadoran economy, the government has focused its efforts to promote and strengthen this sector by adopting various measures, including improving access to financial services for MYPEs, particularly credit, for example, through the CRECES MSME program launched in May 2013 (CONAMYPE, 2013).

Figure 4. Map of El Salvador
Source: (CEPAL, 2013)

Political context. During the 1980's El Salvador went through nearly 12 years of civil war, leaving nearly 80,000 dead, half a million displaced, and the migration of about one million people to the United States (Operations Evaluation Department of the World Bank, 1998). Following the signing of a peace agreement between the government and the "*Frente Farabundo Marti para la Liberacion Nacional*" (FMLN) the war ended in 1992. Since then, the FMLN political opposition remained until 2009, when it came into power after being elected democratically. Although there has been considerable progress in consolidating peace and

[21] According to the Law on Fostering and Development of Micro and Small Enterprises (MYPE Law) submitted before El Salvador Congress in February 2013, micro enterprise is defined as the *"individual or company that operates in various sectors of economy through an economic unit with a gross sales level of up to 482 minimum salaries a month or more and up to 10 employees" Likewise, it defines small enterprise as: "The individual or company that operates in various sectors of economy through an economic unit with a gross sales level exceeding 482 and up to 4.817 minimum salaries a month and up to 50 employees." In* El Salvador, minimum salary varies according to economic sector and it spans from US$104,97 a month for farmers and US$224,29 for commerce workers

democracy, since the end of the war, the country still shows political polarization. That is currently at its peak because at the beginning of 2014 there will be new elections.

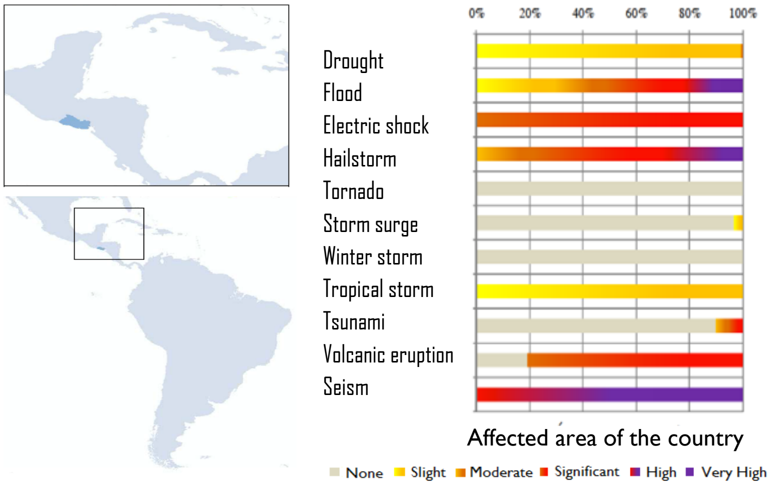


Figure 5. Percentage of the influence area by type of risk
Source (World Bank, 2001)

Economic context. The political transformation of the country after the war was accompanied by the adoption of major structural changes and macroeconomic policies that were the basis to achieve strong economic performance during the 1990s, with average growth of about 6 %, (World Bank, 2013). Although during the last 15 years the average growth has not been as spectacular (average of 2%), there were periods of very significant growth (in 2007 reporting a 4.7 % increase). However, growth in El Salvador since 2004 has been below the average of developing countries and countries in Latin America (FUSADES, Economic Situation Report for Quarter II- 2013, 2013). However, the financial crisis of 2008 had a great impact on the Salvadoran economy, to the point of contracting GDP (Gross Domestic Product) by 3.1 %. Between 2007 and 2008 the percentage of the poor increased from 35.5 % to 42.3 % and movement to urban areas was encouraged (see Figure 5) (FLACSO program El Salvador, Ministry of Economy, UNDP, 2010).

In Central America, El Salvador was the country that suffered the most impact of the 2008 financial crisis, driven by the close ties that El Salvador has with the United States. Particularly because of its dependency on remittances. In this context, the Government presented a Current Anti-Crisis Plan (PAC), offering an incentive of US$600 million, the objectives are: (i) protect existing jobs and create new ones; (ii) protect vulnerable population from the negative impacts of the crisis, especially the poor and excluded, (iii) begin implementation of universal social protection system and (iv) use the crisis to build inclusive state policies on economic and social issues (Ministry of Finance 2009)

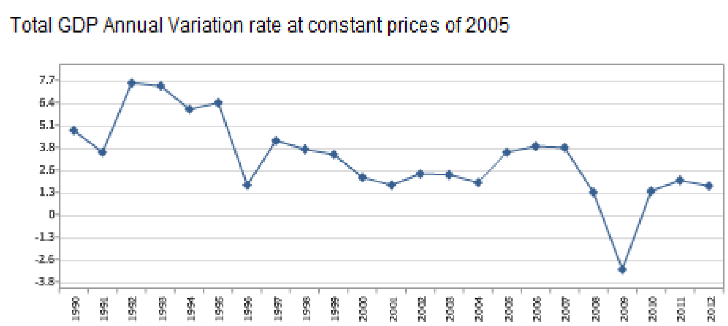


Figure 6. Annual GDP variation
Source: (CEPAL, 2013)

In recent years, the Salvadoran economy has begun to recover, reporting a 1.4 % growth in 2010, 1.5% in 2011 and 1.8 % in 2012 and the forecast is it will grow by 2.3 % in 2013 (such forecast is the lowest in the continent) (FUSADES, 2013). Despite this trend of slow recovery, El Salvador compared to other Central American countries has reported the lowest growth during the period 1990-2011 (average growth ratio of 3.2 %, while the average of the sub-region was 4.6%) (ECLAC, 2012). In this process of recovery, El Salvador is facing multiple challenges, including public debt (56.7% against GDP in 2012), which was one of the main reasons Fitch Ratings recently downgraded El Salvador as a long-term issuer from BB to -BB, placing the country on the same credit ratings as Nigeria, Serbia and Bolivia. Similarly, among these obstacles are natural hazards, crime and violence.

Natural hazards. El Salvador is one of the countries most exposed to natural hazards such as flood, drought, earthquakes, volcanic eruptions, etc. (see Figure 9) (IDB, 2011). This explains why in 2009 El Salvador ranked first in the global climate risk index of 177 countries and fourth in 2011 (Ministry of Environment and Natural Resources, 2012). The effects of losses caused by natural disasters in El Salvador are devastating. For example, in three extreme weather events that occurred in 24 months from November 2009 to 2011 loss exceeded US$1.300 million, equivalent to 6 % of GDP. Approximately 30-40% of corn and 70% of beans were destroyed by floods in 2011 and about 60,000 persons had to leave their homes (Oxfam America, 2011). The 2001 earthquake also had devastating effects, destroying 8 hospitals and 113 of the 365 health facilities in the country, reducing by 55 % the capacity to provide health services (World Bank, 2008). El Salvador floods affect about 10,000 lives and causing economic losses of about US$20 million per event. A common storm affects about 20,000 persons and damage may amount to US$140 million and earthquakes can affect around 400,000 and 80,000 persons respectively and losses may reach US$550 million (Prevention Web, 2012) This panorama becomes even more important if one considers that the country's agriculture absorbs 60 % of employment in the non-metropolitan area of San Salvador (Martínez, 2013). The country's crops are also affected by pests. Recently, the Salvadoran Foundation for Coffee Research (PROCAFÉ) said that the outbreak of rust in coffee crops –present in the country since 2012, could leave accrued losses of US$144,520,000 (Periódico El Mundo, 2013). Despite this high exposure to natural disasters, El Salvador does not have a clear management tool for natural hazards. Only since 2012, did it begin designing a National Climate Change Strategy by the Ministry of Environment, which contains risk management in one of its axes.

Crime and violence. After signing the Peace Accords of 1992, El Salvador went from "gun violence" to "social violence," where motivations are not political or military anymore, but mostly criminal, territorial or symbolic, economic and cultural (González, 1997). This social violence has characterized post-war El Salvador and has emphasized the existence of transnational street gangs such as "Mara Salvatrucha" and "Mara 18" which were born in the U.S. and have spread to several Central American countries. In this context, according to United Nations Office on Drugs and Crime (UNODC), El Salvador was considered in 2011 as the second most violent country in the world recording 70 homicides per 100,000 inhabitants (UNODC, 2013). However, in March 2012 the two gangs came to a truce, which is believed to have contributed to lower rates of violence in El Salvador to less than 25 homicides per 100,000 inhabitants (60 % reduction)[22]. Despite this reduction, the population has shown serious reservations about the truce. This is why a recent survey of the Institute of Public Opinion (IUDOP) of Universidad Centro Americana Jose Simeon Cañas (UCA) states that 83.1 % of citizens have little or no confidence in this measure, and 72.6 % think the truce has reduced little or no crime in the country (FUSADES, 2013).

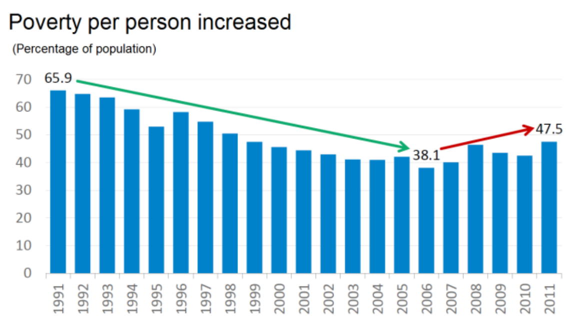
The impact of violence on entrepreneurship in El Salvador is evident, particularly extortion. A recent ECLAC study found that Salvadoran companies spend about 8 % of their budget on insurance, and the "shadow price of crime" is equivalent to 5% and 10 % of the country's GDP, exceeding average in Central America (CEPAL [ECLAC sub regional headquarters in Mexico], 2011). Recently, a study by the National Association of Private Enterprise (ANEP) said that MYPEs, particularly two of their guild (The National Council for Small Business - CONAPES - and the Salvadoran Society of Businessmen and Industrialists - SCIS) said that 70 % of microinsurance and small Salvadoran businesspersons are victims of extortion, and they spend about US$18 mln. a year to pay extortion (The Economist, 2013). Another recent survey found that crime is one of the factors why the business climate does not improve, besides uncertainty (FUSADES, Dynamic Business Survey, 2013). During the first quarter of 2013, FUSADES reported that 1 out of 4 companies reported being a victim of crime. This circumstance affects micro and small entrepreneurs to a

[22] In May 2013, Mara Salvatrucha and Mara 18 signed a "cease violence" agreement in Honduras, this was sponsored by the Organization of American States (OEA). If this agreement is honored, projections for El Salvador to fight crime and violence are positive.

larger scale. About 30% of them reported being a victim of crime (FUSADES, 2013) (CEPAL [ECLAC sub-regional headquarters in Mexico] 2011).

Poverty reduction. Poverty in El Salvador is determined according to the purchasing capacity per capita of the Basic Food Basket (CBA), which in 2012 had a cost of US$170.9 (3.65 household members) for urban areas and US$131.4 (4.20 household members) for rural areas. The extended CBA had a cost of US$341.9 and US$261.8 for urban and rural areas respectively. In this regard, a households is considered extremely poor when its income per capita cannot cover the cost of the CBA (US$5.60 a day urban area, US$4.38 a day in rural areas). Households with a per capita income unable to cover the cost of the extended CBA (US$11.3 a day urban, and US$8.7 a day rural) are classified as relatively poor. From this perspective, nationwide 8.9% of households live in extreme poverty, while 25.6% in relative poverty, so, the remaining 65.5 % of households are considered "non-poor." These figures are in urban areas 6.5% (extreme poverty) and 23.4 % (relative poverty), and for rural areas 13.6% (extreme poverty) and 29.8% (relative poverty) (DIGESTYC, 2013)[23].

Figure 7. Increase and reduction of Poverty in El Salvador
Source: (FUSADES, 2013)



The process of poverty reduction in El Salvador has had a volatile trend since 2000 (see Figure 7). For example, in 2011 it increased to 47.5%, while in 2006 it was 38.1%, recently in 2012 it dropped further to 34.5%. In order to reduce poverty they implemented the "*Solidary Rural Communities*" (previously "*Solidarity Network*") program in 2005. Perceived in the context of the universal system of social protection, whose targeting is done through the "national poverty map." The "*Solidary Rural Communities*" program is based primarily on these areas: (i) provide conditional transfers to train human resources, (ii) improve local infrastructure and basic service network, (iii) generate income and productive development through training and microcredit. In 2008, this program was supplemented with the basic pension program offered to those over 70 and in extreme poverty.

Although poverty reduction has not been constant in recent years, there have been progressive changes in income distribution and in reducing inequality. Since 2009, the GINI coefficient has reported a sustained reduction, from 0.482 in 2009 to 0.410 in 2012 (DIGESTYC, 2013). Similarly, there has been more class mobility. Between 1991 and 2008, 24.9 % of the poor became a "vulnerable population" while 0.4 of them switched up to middle class, 17.6% of vulnerable population switched to middle class in 1998 (Ferreira, Messina, Rigolini, López-Calva, Lugo, & Vakis, 2013, page 105).

Characteristics of poverty in El Salvador. Over half of the poor in El Salvador live in urban areas (FLACSO Program El Salvador, Ministry of Economy, UNDP, 2010) (FUNDASAL, UNDP, 2009). The higher level of instability is found in more regions of the AMSS, municipalities such as Ahuachapán and Cuscatlán reporting "*over 80 % of its urban population living in precarious settlements*" (FLACSO Program El Salvador, Ministry of Economy UNDP, 2010). Poor households in El Salvador are characterized by having a daily income of about US$10 (US$2.3 per capita), have 4.6 members, about 2.2 are children. The head of the family is around 47 and has 3.9% years of education. Only 40 % of women of working age have entered the labor market. The distribution in self-employment and wage labor is homogeneous (40 % for each category) and the percentage of unemployment is around 10%, while 5% are unpaid workers. Most of them work in the

[23] In 2011 El Salvador government, supported by UNDP and the "Oxford Poverty and Human Development Initiative" started to adopt a tool to measure multidimensional poverty nationwide. With the help of a Technical Committee, it is expected to be in operation in 2014. Eight dimensions were identified during the study process, namely, employment, housing, education, safety, recreation, health, nutrition and income. The impact of this tool and the national multidimensional poverty index to be proposed will be useful to focus and monitor government social programs.

private sector and in agriculture; the public sector seldom employs a poor worker (Ferreira, Messina, Rigolini, López-Calva, Lugo, & Vakis, 2013).

Concerning mobile phone ownership in urban areas by 2008, it was considered that 67.7% of the poor (including households in chronic poverty, recent poverty and deprivation with inertial integration condition) owned a cell phone (FLACSO program El Salvador, Ministry of Economy, UNDP, 2010). This figure today must be higher considering that mobile phone subscriptions reached 8,649,000 mln. in the country, so that there are more cell phones than inhabitants (there are 138.8 cellphones per 100 inhabitants) (International Telecommunication Union - United Nations, 2013). These figures rank El Salvador as the second country in Central America (followed by Guatemala, 20.787 mln.) with the most cell phones. We estimate that this figure is higher considering that the 2012 Multi-Purpose Household Survey (MPHS) stated that 90.53 % of households have a cellphone, highlighting that the average expenditure per month is around US$10.58 (DIGESTYC, 2013, page 88). For other appliances, in 2008, 90.5% of the poor (in the terms above) had TV, 51.4% had radio and 52.1% had a phone (FLACSO Program El Salvador, Ministry of Economy, UNDP, 2010).

Human development. El Salvador is ranked as a middle class country based on its Human Development Index (HDI), placing it 106th out of 187 countries (see Table 7). However, having this index, El Salvador is in third place in Central America (See Table 7).

Human Development Index (HDI) It measures three basic dimensions: (i) long and healthy life (indicators of life expectancy); (ii) access to knowledge (indicators of educational achievements), and (iii) a decent standard of living (as measured by GDP per capita). HDI is defined as a minimum and a maximum value for each dimension (called objectives) and then it displays the location of each country in relation to these objectives expressed as a value between 0 and 1.		
Country	**HDI**	**HDI** (Worldwide ranking out of 187 countries)
Panama	0,780	59
Costa Rica	0,773	62
El Salvador	0,680	106
Honduras	0,632	120
Nicaragua	0,599	129
Guatemala	0,581	133

Table 7. Human Development Index in Central America

Source: (UNDP, 2012)

Regarding the first dimension, life expectancy in El Salvador is about 72 years of age (77 women and 67 men).[24] On education, illiteracy rate in 2012 was 12.4 % nationwide, which represents 8.2% for the urban area ratio, and 19.9 % for rural areas (DIGESTYC, 2013). As for gender, 14.7% of women are illiterate. School attendence of the population of 4 years in 2012 was 31.6 % and the average schooling for the country is 6.4 years, in the urban area with an average of 7.7 grades passed, while in rural areas the population has an average of 3.6 grades passed. In terms of income, the average monthly household income nationwide was US$506.91 (US$16.9 a day). IMonthly ncome for urban areas was US$594.47 (US$20 a day) while for rural areas was US$338.55 (US$11). The average income of workers is US$305.67 (US$10 daily). There is a clear demarcation between men and women. Men receive 15.23% more than women do (DIGESTYC, 2013). Out of the total population of El Salvador in 2012 (6,249,292 inhabitants) 4,308,637 are Working-Age Population (PET) (68.9 % of the total). PET are engaged in economic activity or offer their work or services to labor market is the Economically Active Population (PEA) which is 2,724,754, about 93.9% of them have a job. There is a 6.1 % rate of unemployment nationwide. However, 30.7 % of EAP in

[24] More details on access to healthcare provided below.

the urban area is "underemployed" (excluding domestic service). The percentage of underemployment or informal sector brings us an idea of the situation; it is noteworthy that about 72% of the labor force had no formal jobs in 2012. In the first half of 2012 the average private sector workers enrolled in the Salvadoran Social Security Institute (ISSS) was barely 1% above average in 2008 (ECLAC, 2012). According to FUSADES, 7 out of 10 new workers found no formal employment, i.e. 31,670 persons were left without formal employment in 2012 (FUSADES, 2013).

Social security and health. El Salvador Universal Social Protection System has two components, contributory and non-contributory. The first includes granting social benefits to formal sector employees, this is particularly associated with the concept of "social security." The second is associated with social assistance, as in the case of the "Rural Communities." For social welfare, El Salvador has a private pension system, "Pension Savings System" (SAP) this is mandatory for employees and voluntary for self-employed. The SAP combines private and public insurance. Part of the insurance offered in the context of SAP is disability and survivors' insurance; these are undersigned with insurance companies. Even though all employees are required to join the SAP, its coverage is very limited. Estimates show that by 2008, only 19% of the employed population was paying social security contributions and 14.5 % of the population over 65 had access to a pension. In particular, by 2011 they calculated that 87% of the population over 65 in El Salvador had no access to a pension (Martínez, 2013). This lack of access is even more profound for the poorest sectors of the population, and by 2006, only 2.6 of the population in quintiles 1 and 2 received a pension, 9% and 16.2 %, respectively, paid social security fees, 6.8 % and 13.8 %, respectively, were formally insured (Martínez, 2013). The health sector in El Salvador comprises public health, social security, and private insurance. The last two are reserved for upper and middle-upper brackets (Martínez, 2013). The Basic Integrated Health Systems (SIBASI) and the Ministry of Health (MINSAL) provide universal access to health services. The Salvadoran Social Security Institute (ISSS), as well as certain individual social security systems (teachers, military, etc.) provide access to health services to their members. Health services reports for 2006 showed that 78% of the population had no access to health insurance. MINSAL covers about 40 % of the population, which is half of what it should cover; ISSS covers 21.1% of the population and the private teachers' system cover 12% (Martinez, 2013). Social security is the sector that reported more social expenditure in El Salvador (4.3% of the 2009 GDP), which is followed by health (4.1%) and education (3.9%). This expenditure has had an increasing trend over the years, only between 1998 and 2009 the per-capita social security expenditure increased from US$28 to US$127, and health increased from US$77 to US$120. Population's health reports show that 12% had an accident or illness, 59% of them sought help from third parties, 40.9 % self-medicated, they did not visit a physician or sought any help. Interviews with some of these users showed that 66.3 % used MINSAL institutions, 12.44 % used ISSS healthcare, 17.4%, went to other hospitals or clinics, 3.9 % used the military hospital, NGO's, social programs, and drugstores.

Salvadoran health system consists of public and private sectors. The public sector includes the Ministry of Health, ISSS, and Salvadoran Institute for Rehabilitation (ISRI), Military Healthcare, the National Institute of Teachers' Welfare (ISBM) and the Solidarity Fund for Health (FOSALUD), which is closely related to MINSAL. MINSAL's funding sources include the Government and international cooperation. ISSS, ISRI, Military Health and ISBM are financed by contributions from employers, affiliated workers and the Government. All these institutions have their own infrastructure (hospitals, health centers) and human resources, except ISBM. ISSS serves formal sector workers, pensioners and their families. ISRI covers people with disabilities and older adults. ISBM provides healthcare to teachers and their families. Military Health covers members of the armed forces and other individuals who pay for health services. MINSAL covers all uninsured population, most informal sector workers, unemployed and the poor. The private sector includes some profit and nonprofit private institutions. The first ones are mostly funded with out-of-pocket payments, these provide healthcare for people who can afford to pay. Nonprofit private entities including churches and NGOs are mainly donation-funded. These entities serve the population without access to health services. The Ministry of Health is the governing body of El Salvador health system; it controls health policies and regulates the system. (Acosta, Sáenz, Gutiérrez, & Bermudez, 2011)

Dependence on remittances. About 20% of Salvadorans receive remittances from abroad, it represents about 35 % of household income, and 16.4 % of GDP (Ministry of Economy of El Salvador, 2009) (DIGESTYC, 2013). This shows the strong dependency of Salvadorans and the country's economy on remittances. This became evident during the financial crisis of 2008. Some have even considered "remittances to play the role of informal insurance for households." (FUSADES, Social Situation Report. First Quarter of 2011, 2011) Even though remittances are losing the dynamism of previous years, (comparing the amounts received during the first half of 2013 and 2012, remittances growth was only 0.6 %. Comparing the same period of 2012 and 2011, the growth was 7.2%). Nominal growth trend is evident, for example, in June 2013 remittances received totaled US$322 million, while in June 2012 were US$318 million (Central Reserve Bank El Salvador, 2013) (FUSADES, 2013). However, El Salvador remains one of the countries with the highest average receipts of remittances in Latin America and the Caribbean (the region received in 2012, about US$61,276 mln. in remittances). In 2012, it ranked fourth after Mexico, Guatemala and Colombia. (Heymen & Maldonado, 2013). Recently BCR, referring to the "Survey of Remittance Senders" said that the average remittance sent by Salvadorans is US$321.70 per month. It also said that the departments that receive more remittances are San Salvador with 22.3 %, Santa Ana 11.0 %, La Union 10.1 % and San Miguel 9.8 %. Concerning expenditure of this income, 27% of remittances are earmarked for medical treatment, 19% for events, 14% for funeral expenses, 13% for the holiday season, 12% for the purchase of homes, 6% real estate improvement, 3% on education, and 1% on business, the remaining 5% on miscellaneous expenses (Central Reserve Bank of El Salvador, 2013). It is noteworthy that, according to MPHS, only 1.98 % goes to savings (DIGESTYC, 2013, page 81). Monthly remittance received per household is about US$172.77 (DIGESTYC, 2013, page 130).

Given MPHS is evidence that the profile of households receiving remittances is heterogeneous, but the vast majority (74.46 %) is considered non-poor, 4.4% are in extreme poverty, and 20.79 % are in relative poverty (DIGESTYC, 2013, page 189). According to MPHS, households that receive remittances but live in extreme poverty because such contribution is not enough to cover the CBA (46.68 % of the extremely poor households receiving remittances were sent between US$46 and US$113 per month, while 39.5% of these families received less than US$46 a month). Most of the 67,141 poor families receiving remittances (39.6%) said they receive between US$46 and US$113 per month, and 25.2 % receive between US$114 and US$228 per month.

2.2. Financial Inclusion Context

Access to financial services. Financial services in El Salvador are provided by a variety of entities, which are not always regulated and/or supervised by supervising authorities, financial sector laws and regulations, SSF, and BCR.[25] Unlike other financial services such as deposits from the public for savings and insurance, there is no regulatory limit for loan offer in El Salvador.[26] Insurance is offered only by specifically licensed entities and it is supervised by SSF can perform such activities. Even though it is the smallest country in Central America, El Salvador has one of the most complex microfinance markets in the region, where multiple organizations interact (hereinafter referred to as Microfinance Institutions or MFI). These include private banks, worker's banks, workers credit unions (some of them grouped in the Federation of Credit Unions and Workers Banks - FEDECREDITO); Savings and Loans Societies (SAC), Savings and Loans Cooperatives

[25] SSF has recently introduced risk-based supervision. In this context, SSF and the BCR are currently drafting a standard with the purpose of extending the supervision perimeter of the SSF, in particular to include savings and loans cooperatives.

[26] Pursuant to the Law on Supervision and Regulation of the Financial System, we identified the companies that comprise the financial system: banks, societies integrating financial conglomerates, pension fund administrators, insurance companies, cooperative banks, credit and loans associations; all federations regulated by the Law on Cooperative Banks and Credit and Loans Associations (LBCSAC); mutual guarantee companies and their local reinsurers, companies that offer financial services complementary to the regular services offered by the financial system.

(some CAC are members of a union: FEDECACES), associations and nonprofit foundations, NGOs, and public credit institutions[27] (see Figure 8).

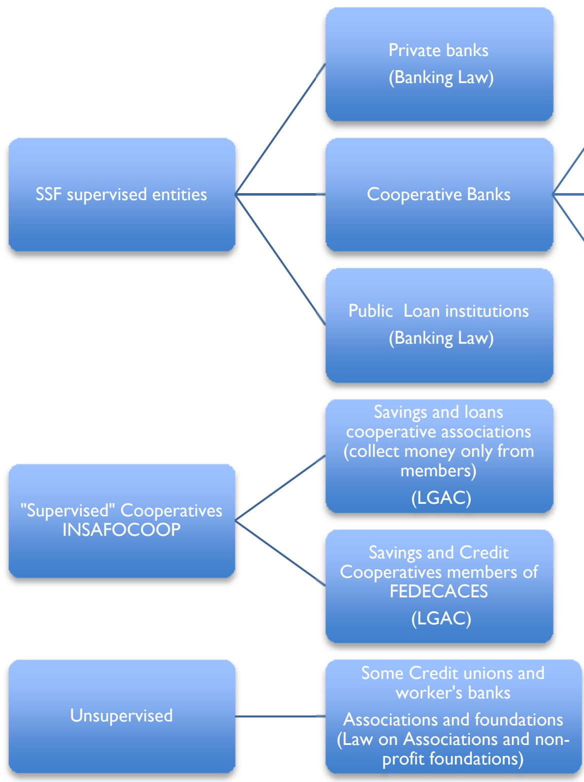


Figure 8. IMF's Organization chart by supervisor

El Salvador MFI's are distinctly heterogeneous and difficult to quantify. However, there are three useful tools to estimate quantification: First, the registration of creditors recently launched by the Usury Act enacted in January 2013.[28] Although there are no official numbers at this time, we estimated that as of July 2013 there were about 240 registered creditors.[29] Second, analysis of the data published by MicroEnfoque magazine published by the Management of Microinsurance and Small Enterprise Center of Universidad Centro Americana "Jose Simeon Cañas" (UCA), which consolidates information from "about 80 % of all MFI, 85 % of the total number of loans and 92-93 % of the total microcredit portfolio in El Salvador" (REDCAMIF). According to MicroEnfoque Magazine N.42 -43, as of March 2012 they reported information from about 102 MFI in El Salvador (UCA, 2012). These are distributed as follows:

[27] Public credit institutions are: Fondo Social para la Vivienda (FSV); Instituto de Previsión Social de la Fuerza Armada (IPSFA); Fondo Nacional de Vivienda Popular (FONAVIPO); Fondo Solidario para la Familia y la microempresaria (FOSOFAMILIA); Banco de Desarrollo de El Salvador; BCR; Instituto de Garantía de Depósitos (IGD); Fondo de Saneamiento y Fortalecimiento Financiero (FOSAFFI); and Corporación Salvadoreña de Inversiones (CORSAIN).
[28] Creditors subject to usury law are: banks, Insurance Companies, Cooperative Banks and Federations pursuant to the Law on Cooperative Banks and Credit Unions; Credit Unions Associations and Societies and their Federations; Savings and loans Societies; Workers' Banks, Credit Unions, Credit Card Issuers, nonprofit organizations that grant loans, nonprofit foundations that grant loans, commercial houses, traders of goods and / or services; Pawn Shops; assistance funds; individuals who lend money, and in general, any individual or entity conducting financing operations pursuant to the Law on Usury
[29] This amount is consistent with microfinance reports that estimate around 300 MFIs in the country. (Rodriguez, 2012)

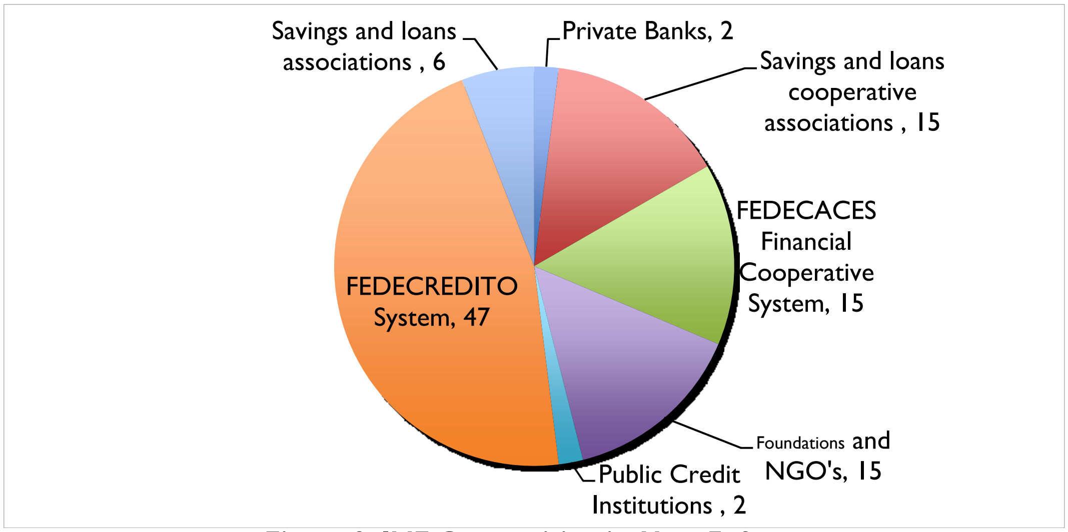


Figure 9. IMF Composition in *MicroEnfoque*

Third, the INSAFOCOOP's record of Savings and Loans Cooperatives reported 371 CAC as of August 2013.

However, only 12 of these MFIs, are members of a union, i.e. Association of Microfinance Organizations (ASOMI).

There is great heterogeneity and "saturation" of MFIs in the country. They have not been limited by the absence of a definition of microfinance. Microfinances have been explained as an evidence of the civil war of the 1980s and its persistence is somewhat justified by the context of crime and violence that plagues the country. During the war, formal economy disintegrated, and along with it, the formal financial sector. In this context, to ensure the survival of most of the population, the informal economy played an essential role, and with it, the informal financial sector, which was founded on social ties (Kennedy, 2009). However, despite the expansion of the financial offer through MFI, which has been encouraged in the last decade (MFI penetration is around 32.4 %). Only 13.8 % of the population has access to a bank account with a regular entity. This is important considering that the regional average is 39.2 %. In this context, the government has adopted some measures to promote access to financial services in the country as part of its objectives; such measures include: the financial inclusion policy (see Box 4); subscription of the Declaración Maya by SSF and BCR; integration of the micro credit program, CRECES Mipyme Program (in the context of its development program for micro and small business CONAMYPE); and the adoption of regulations aimed at facilitating access to financial services in the country. Concerning the latter, the Usury Law was adopted recently and a standard financial correspondent was approved in 2013. There are some other projects still under analysis, such as the financial inclusion standard and the

Financial inclusion policy

A workgroup comprised of SSF, BCR, Presidency of the Republic, the Ministry of Economy (CONAMYPE), Bandesal, and technical assistance from the Treasury of the United States, was organized in September 2011. Its purpose was to promote "financial inclusion" in El Salvador. Although so far no such policy is institutionalized, the definition profiled for financial inclusion is, "*Financial inclusion comprises access and use of financial services under certain regulations to guarantee consumer protection provisions and promote financial education to improve financial capabilities of all segments of the population.*" From this perspective, the main objective of this policy is to strengthen the regulatory framework and promoting access to financial services for the entire population in order to leverage economic growth. The issues currently on the agenda include microcredit, financial literacy, create a database of the status of financial inclusion in the country, the assessment of the regulatory framework applicable to financial services to overcome barriers and ensure access. The topic of microinsurance was recently added. It is estimated that institutionalization of this policy will be leveraged by adopting the rule on "financial inclusion."

Box 4. Financial inclusion policy

MYPES draft law.[30] The purpose of the Usury Law is to regulate interest rates applied by all MFI and regulated/supervised individuals or not offering loans under the conditions prescribed by the Law. The impact of this law was discussed with some participants in this market during our visit. Some stated that the new restrictions may hit hardly the microfinance sector, given that it is mandatory for an MFI to comply with certain institutional requirements that are impossible to comply by some MFIs. That would ban some MFsI from continuing to offer loans. In addition, the Consumer Protection Law banned charging commissions for granting loans. Although this favors transparency, some MFI's profit may be affected. Because of these regulatory changes, the Global Microscope on the Microfinance Business Environment 2013, reduced El Salvador rating placing it in the eighth place (sixth in 2012), out of 55 countries.

2.3. Insurance Sector Context

El Salvador has one of the largest insurance sectors in the region; however, the growth rate has dropped in recent years, particularly against its Central American neighbors (SSF, Insurance Statistics Yearbook 2012, 2012) (Catellanos, 2013). Despite that, we believe that the Salvadoran and Honduran insurance markets have the best performance in the region (Fitch Ratings, 2013). In terms of penetration, El Salvador has the fourth highest rate of penetration in the region, and in spite of the decline in 2012 is expected that the penetration will keep on growing, particularly because they use alternative distribution channels (Fitch Ratings, 2013) (See Figure 10).

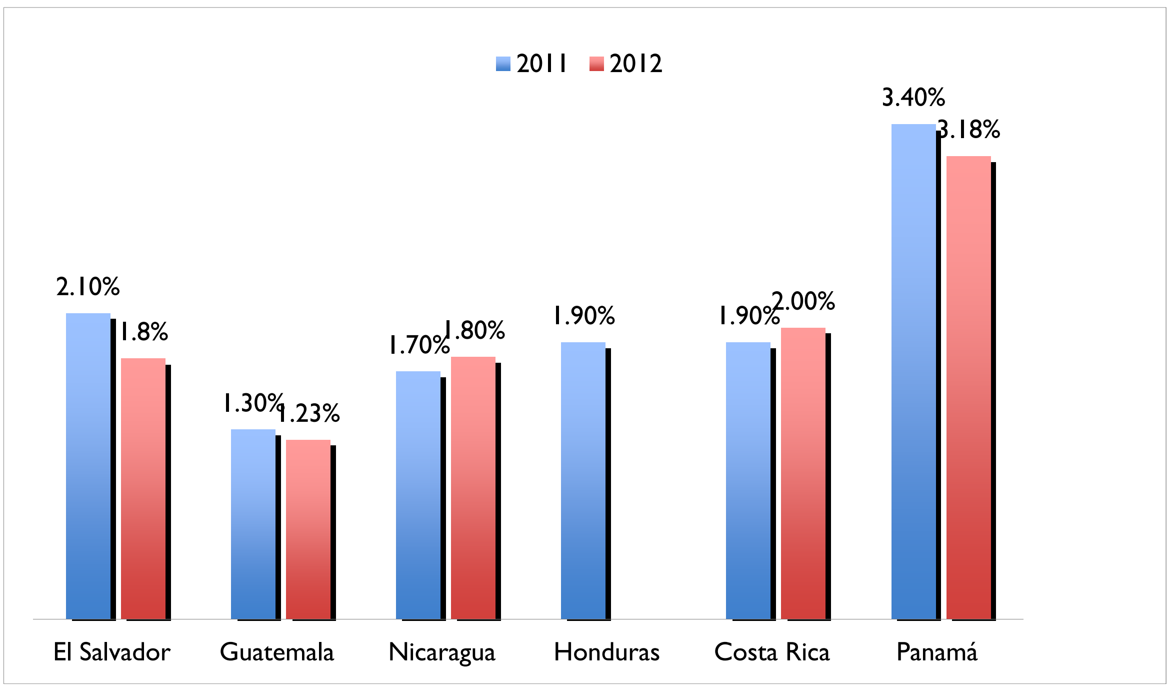


Figure 10. Insurance penetration in Central America

The Salvadoran insurer sector is made up of 21 insurance companies that are authorized either to offer life[31] or loss[32] insurance, or both. Among them, 18 are corporations (14 with foreign capital), one is a cooperative and another is the branch of an insurer. Recently, FEDECREDITO filed an application to

[30] It is noteworthy that this draft project emphasizes that the SSF should issue a standard to facilitate credits for MYPEs particularly simplifying procedures, requirements, policies, and regulations.
[31] Life insurance is made up of the following lines of product: life (individual or group), accident and health (individual or group) and pension insurance.
[32] Loss insurance is made up of the following product lines fire, and related lines (earthquakes, disasters, etc.) automobile and other types of products.

organize two insurance companies, one for life insurance and the other one for general coverage (SEGUROS FEDECREDITO S.A. and FEDECREDITO VIDA, S.A. Seguros de Personas). In terms of net premium volume, six companies account for 65% of the production of all the insurance industry in El Salvador, ACSA; SISA Vida; La Centro Americana; ASESUISA Vida; Aseguradora Suiza Salvadoreña S.A., and AIG (See Figure 11).

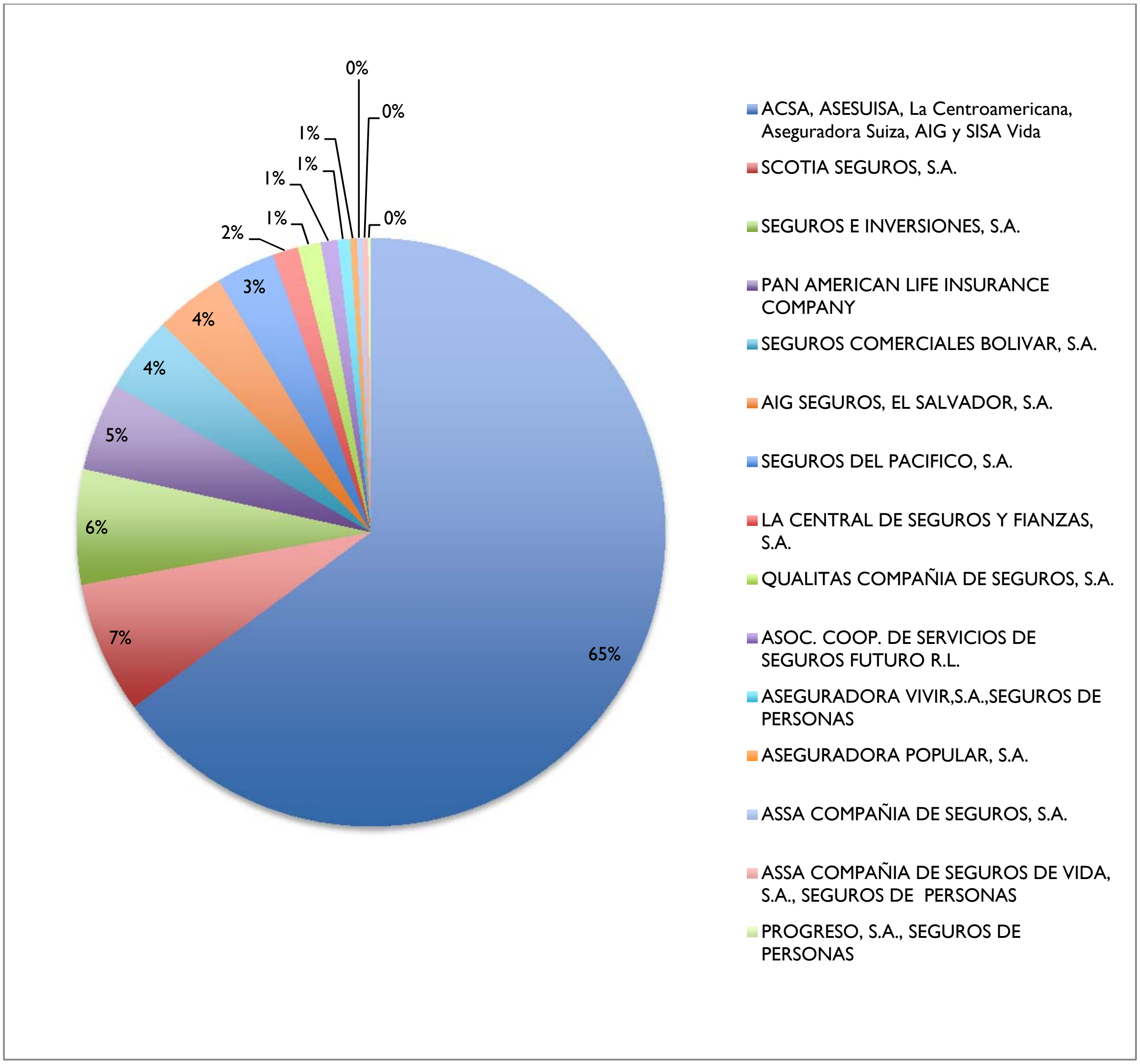


Figure 11. Insurance market concentration by insurer
Source: (SSF, Insurance Statistics Yearbook 2012, 2012)

The product line reporting the highest income from premiums is loss (45%), followed by life (25%) (See Figure 12).

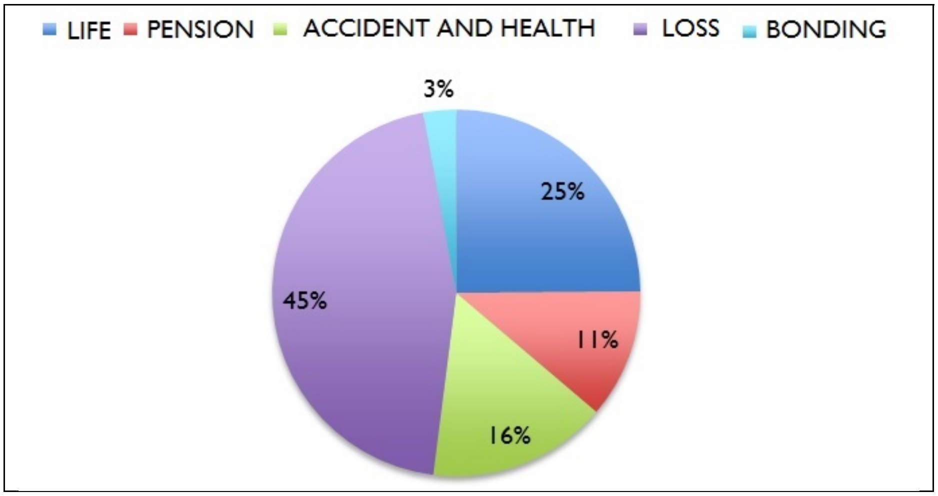


Figure 12. Product lines by premium

All insurance is charged with the Transference of Movables and Service Provision Tax (Value Added Tax - VAT) except for life insurance, which is currently 13%.[33] Taxpayers may deduct the premium amounts paid provided they are related to insurance risks taken against goods that are vital for the source of income.[34] Pursuant to Article 4 of the Income Tax Law, any revenue from insurance compensation is not taxable. However, there are two exceptions, for compensations to be received from insurance when a loss event has not occurred, and the term provided is lower or equal to 5 years (endowment insurance or the like) and for compensation received from insurance with a term exceeding 5 years, and which are rendered ineffective before the term has expired and no casualty event has occurred.

Article 32 of the income tax law provides that certain social expenses may be deducted from the income tax return. They are expenses for "*pension plans, health and life insurance, and similar benefits provided free of charge and generally to the workers, for their education and welfare and that of their children, provided that such services are provided in the country*."

According to Article 33 of the MYPEs draft law some special tax regimes may be established, favorable to MYPEs, in this case setting exemptions, exclusions, grace periods or lower rates, may be considered as provided by the draft law when MYPEs take a particular insurance.

Demand for insurance. The last MPHS stated that only 0.42 % of respondent households invest on life and theft insurance (they invest about US$17.59 a month), and only 0.15 % of households invest in health insurance (with a monthly average expenditure of US$34.14 [DIGESTYC, 2013, page. 86]. The latter becomes relevant when considering that 20.62 % of households said they have medical expenses, for nearly US$15.81 a month.

There is no mandatory insurance in El Salvador that may be accessed by microinsurance target population; however, over three years ago there was an initiative under study through which the subscription for Car Accident Insurance (SOAT) would become mandatory. This initiative was filed in December 2012, but they chose to create a state fund, the National Fund for Car Accident Victims (Fonat), which would be financed by all owners of private vehicles in El Salvador. This has generated some tension between the public and private sectors. Last July, the constitutional chamber of El Salvador Supreme Court suspended the collection of Fonat, while it decides on an appeal of unconstitutionality against the law that created it.

[33] Article 46 of the Law on Transference of Movables and Service Provision Tax (Decree 296/92); however, for individuals, the acceptable deduction is up to 50% of the Premium in case the home is used as business location and when this house is insured.
[34] Article 29 of the Income Tax Law (Decree 134/91)

3. ANALYSIS OF MICROINSURANCE ENVIRONMENT IN EL SALVADOR

In order to provide a detailed analysis of microinsurance environment in El Salvador, we will discuss first the status of microinsurance market (3.1.); after that, the supervisory and regulatory framework applicable to this market (3.2), and then present the value chain of such products, emphasizing the supervision and regulation framework applicable for each stage.

3.1. The microinsurance market

This section is divided into two parts: the first objective of the microinsurance market in El Salvador population is identified, and then provides an overview of the current offer microinsurance products (3.1.2.).

3.1.1. Captive demand

The term "microinsurance target population" in this study will refer to "poor" population, whose income may come from both informal and formal sectors, and who lack effective risk management, particularly, they have no access to conventional insurance. This population would also include entrepreneurs who lack access to conventional insurance. Similarly, poverty must be viewed from a multidimensional standpoint avoiding restrictions and keeping in mind that the purpose of microinsurance is to expand the supply of insurance to those predominantly excluded.

While the purpose of this study is not to provide a quantitative and qualitative analysis on the microinsurance target population in El Salvador, we provide a quantitative approach to the same for participants in the value chain to get an idea of the microinsurance potential market. A basis mechanism of social strata may be used to have an idea of such market; however, there is no focalization instrument for social programs in El Salvador as social brackets of SISBEN index in Colombia, or a classification between social-economic brackets as in Peru. In order to provide a potential microinsurance market index in the country, we considered information on poverty, underemployment, informal sectors, microenterprise, living conditions, etc. (information obtained mostly from MPHS other studies) (DIGESTYC, 2013) (Ferreira, Messina, Rigolini, López -Calva, Lugo, & Vakis, 2013) (FUSADES, 2013) (FLACSO program El Salvador, Ministry of Economy, UNDP, 2010).

Poverty, income and informal sector. Considering the income parameters to classify poverty listed in the context section, average **monthly income nationwide for 2012 is considerably low (US$16.90 a day).** That may mean that some of the population considered "not poor" nationwide may be experiencing multiple deprivations. This is more evident in the usual occupations of the microinsurance target population in other countries, provided the income in such jobs is lower than the national monthly average. This is the case of domestic servants whose average income is US$129.67 (US$4.30 a day); income in agriculture, cattle farming, hunting and forestry is US$137.37 (US$4.50 a day), mining US$226.32 (US$7.50 a day), manufacturing US$231.07 (US$7.70 a day) and construction US$282.20 (US$9.40).

El Salvador has a high rate of underemployment (30.7 % in 2012) and high levels of informal employment (approximately 78% of the labor force is not employed in the formal sector).

Consequently, it is likely that a significant percentage of the population considered "not poor" may qualify as part of the microinsurance target population.

Housing conditions and income distribution by deciles. The above is bolstered by an analysis of the housing conditions of the "non-poor" households according to the MPHS survey. According to this survey, 213 out of 1,066,486 "non-poor" households have straw or palm roofing, 1,333 use waste materials for roofing their homes, 1,590 use straw or palm to build their walls, 4,489 use waste materials for their walls, and about 126,898 households have a dirt floor. These housing conditions indicate a high degree of deprivation, which suggests that this section of the population my live in "poverty" as defined in this study. Moreover, according to MPHS, 40% of the population in urban areas is part of the first four deciles of the population (whose share in national income is 20.55 %); this contrasts with the 29.9 % poverty rate in urban areas (DIGESTYC, 2013, page 244). Using the Unsatisfied Basic Needs (UBN) method and based on 2007 statistics, 33.2% of the population at or above the national poverty line suffered UBN (households with inertial shortage) (FLACSO program El Salvador, Ministry of Economy, UNDP, 2010, page 24).

Microentrepreneurs. It is very difficult to calculate the exact number of entrepreneurs in the country. To get an idea of the size of the sector, we may consider that MYPEs account for 99.7% of the companies in the country, e.g. in 2005 there were 622,377 microenterprises (CONAMYPE DIGESTIC, 2004). This total should be much higher today, since CONAMYPE agencies state that for example, the Ministry of Education annually hires about 4,747 MYPEs for the provision of uniforms. This total has a growing trend thanks to CONAMYPE's formalization program that helped around 400 MYPE's (CONAMYPE, 2013). One of the findings during the visit to El Salvador is the lack of risk management mechanisms by MYPE; this has markedly hindered their sustainability over time. This alsosomehow accounts for their lack of access to financial services, which is one of the main constraints faced by MYPEs.

Vulnerable population. This concept was recently adopted by the World Bank (Ferreira, Messina, Rigolini, López -Calva, Lugo, & Vakis, 2013). The concept of middle class in Latin America established a criterion to differentiate this bracket and the "vulnerable population", i.e. the possibility of falling into the poverty line within 5 years for a middle class home in Latin America is less than 10%. The World Bank stated this likelihood in terms of household income: the minimum amount of per capita income of middle class household is US$10/day (or US$3,650 per person a year, or US$14,600 for a household of 4 members) at the exchange rate of purchasing power parity (PPP) and a threshold amount of US$50. Thus, there is a segment of El Salvador population that, in theory is not under the poverty line and may be considered middle class. Because of the likelihood to drop down to the poverty line within 5 years, they are considered "vulnerable population." In this country, this vulnerable population may include vulnerable entrepreneurs, underemployed population, population in the first four deciles and the middle three deciles of the population, etc.

Consequently, the conclusion is that there is a percentage of the population considered "not poor" undergoing essential deprivation, and it is very unlikely that it will have access to risk management (because they are underemployed, working in the informal sector, working in the formal sector or who are entrepreneurs but not beneficiaries of risk management mechanisms). Microinsurance target population in El Salvador encompasses: (i) the population classified as "poor" (about 34.9 % of the population), (ii) population classified as "not poor", but considered as such in this study because of their particular vulnerability, characterized by the lack of access to risk management mechanisms. In both they may be workers in the informal or formal sector, and/or entrepreneurs. (See Figure 13)

Only 130,000 of this potential microinsurance market are covered by a microinsurance product, according to the microinsurance Panorama in LAC (McCord, Tatin-Jaleran, & Ingram, 2012).

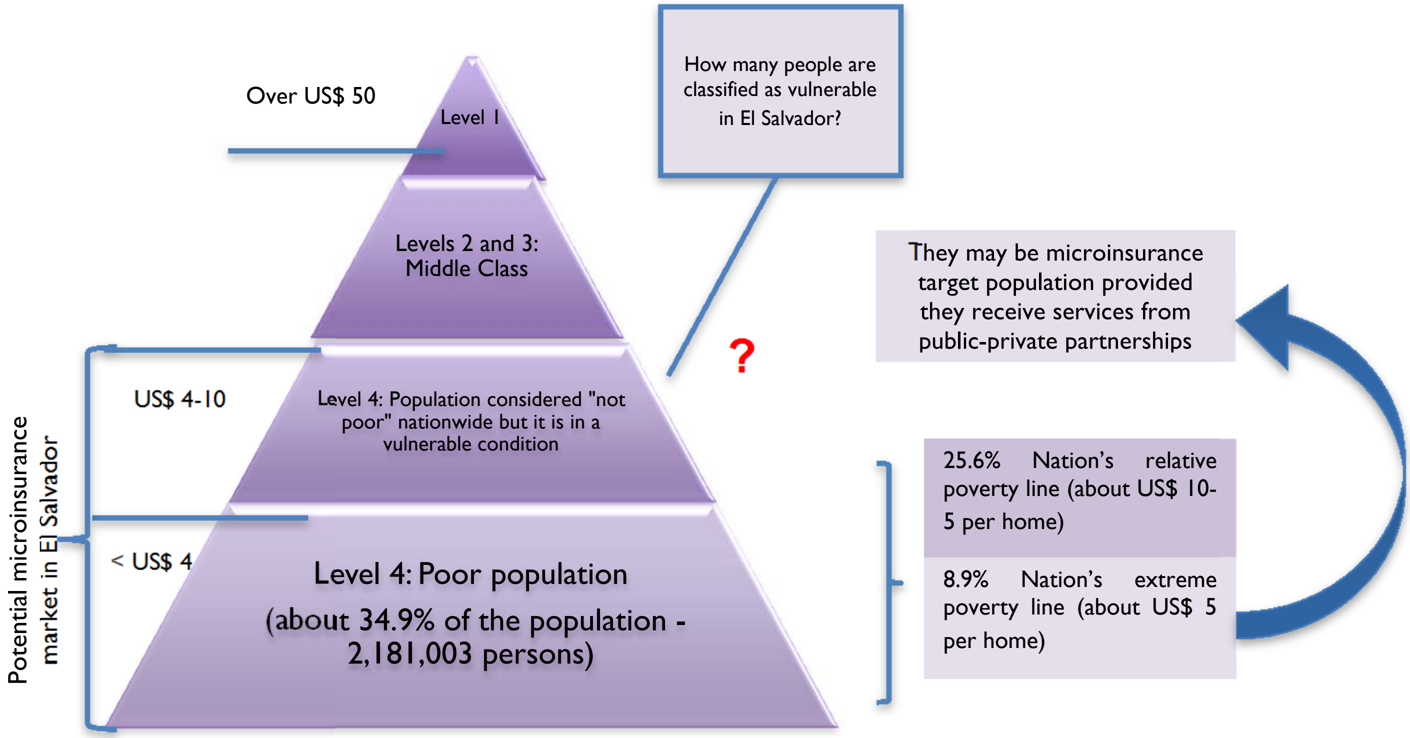


Figure 13. Potential microinsurance market in El Salvador
Source: Own design using (DIGESTYC, 2013) (Camargo & Montoya, Microinsurance s: Highlight experiences in Latin America, 2011) (Ferreira, Messina, Rigolini, López-Calva, Lugo, & Vakis, 2013)

3.1.2. Current insurance supply to the microinsurance target population

In order to present a picture of the current insurance supply to the microinsurance target population in El Salvador, we must first identify the insurance products available for this population. This universe would consist of the following products: (3.1.2.1.) Products that qualify as "microinsurance" by suppliers (3.1.2.2.) "mandatory" and voluntary insurance supply to MFI customers; (3.1. 2.3) insurance offered through mass marketing channels that is affordable to microinsurance target population; (3.1.2.4) Informal insurances are products offered on the basis of principles similar to general insurance principles; however, its suppliers are not licensed to act as risk takers. Finally, (3.1.2.5) private insurance linked to social security, particularly private health insurance and pensions. At present, the government does not intervene actively in offering insurance products. In the case of agricultural insurance, a few years ago, they launched an initiative with the participation of Seguros del Pacífico S.A. and SISA and, together with Banco Hipotecario, but this initiative failed. The main reasons for this failure were high accident rate driven by the high risk exposure of the country; and the lack of technical support, because there is no expert in handling these types of products in the country (actuaries, agricultural engineers, etc.) At this time, Banco de Fomento Agropecuario provides insurance to its customers, but in this case, it is simply credit life insurance and voluntary life.

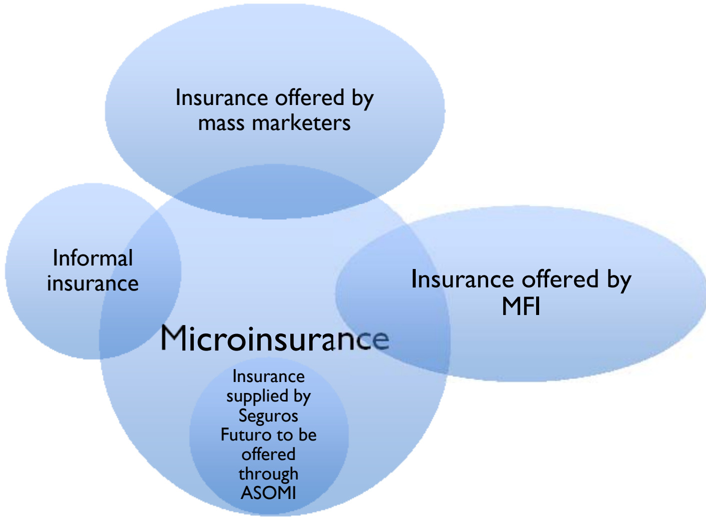


Figure 14. Current offer of microinsurance in El Salvador

3.1.2.1.1. Insurance classified as microinsurance by supplier

At this time, only one of the 21 insurance companies registered in El Salvador identifies some of its products as microinsurance products. This is Seguros Futuro, the only insurance cooperative in the country. Seguros Futuro classifies five of its products as microinsurance. This classification follows three criteria: i. based on the target population, ii. based on the premiums value and sums insured, and iii. facility of subscription, which is measured particularly by the simplicity of the policy. The distribution channel used by Seguros Futuro is FEDECACES Financial Cooperative System, with 32 CAC members. However, Seguros Futuro uses different channels, private banks, SAC, and other MFI. During this study, we found that there are products that Seguros Futuro internally classify as "conventional insurance" but based on the concept of microinsurance herein, they may be classified as microinsurance.

Box 5. ASOMI

ASOMI

Asomi was created in 1998; it currently clusters 12 Salvadoran IMF's. All those IMF's cover about 100.000 customers, particularly in the rural sector. ASOMI is a member of the Central America Microfinances Network (REDCAMIF). It is linked to REDCAMIF microinsurance project whose purpose is to provide various microinsurance products in Central America.

Central American and Caribbean Microfinance Network (REDCAMIF) clusters 106 microfinance institutions from the six Central American countries (El Salvador, Guatemala, Honduras, Nicaragua, Costa Rica and Panama). It has about 670,000 customers and it is currently implementing a microinsurance program in El Salvador. The Microinsurance program REDCAMIF implemented with IDB/MIF fund aims to provide seven sustainable microinsurance products through its local Salvadoran network ASOMI (See Box 5).[35] Thus, at the end of this year or in 2014, other insurers will offer products labeled as microinsurance. REDCAMIF's seven products will be offered to individuals (including health, disability and life), with monthly??? Or yearly??? premiums of about US$ 5. As part of the microinsurance REDCAMIF project, they are analyzing the possibility of designing loss insurance for households and agricultural insurance, and that MFI networks may market mandatory vehicle insurance.

[35] At this time, no insurance company or group of companies has been chosen to provide these products.

3.1.2.1.2. Insurance offered by MFI

Some MFIs currently offer insurance to their customers. They subscribe as takers of group policies and individual policy as marketers.

The most common product is credit life insurance (also referred to as debt insurance, debit insurance or credit insurance), its subscription is mandatory by the MFI granting the credit. In such cases, the MFI endorses the debt insurance contract in their behalf in the event of its customer death. Even though in principle this benefits only the credit institution, it also benefits the customer, because his/her heirs will not have to pay the debt in the event of death. This benefit is more evident when the amount insured is not the declining balance of the debt, but the total amount of credit, where the beneficiary will receive the difference between the outstanding debt and the total amount of credit. Similarly, credit life insurance has been used as a platform to offer other voluntary insurance products, for example, Seguros Futuro, through Sociedad Financiera Enlace offers voluntary life insurance along with its credit life insurance. This is the trend followed by other parts of the world, such as Bangladesh, where the SAJIDA organization provides volunteers with life and health products using the credit life insurance platform, and Peru, where the NGO Prisma offers supplementary life insurance with credit life insurance. In this context, credit life insurance is the best platform to build trust and an insurance culture in order to offer other insurance products.

Second, MFIs offer other credit-related products that are a requirement to grant a loan. Its purpose is to cover mortgaged property or assets for which the credit was applied. The offer of such products by MFIs is still very limited.

Third, MFIs offer voluntary insurance products regardless of credit, where there is no direct insurable interest. In this context, MFIs are generally classified as "mass marketers." Article 51 of the Insurance Law allows marketing of products in bulk through a "marketer" duly registered in the FSS. Massive insurance is generally defined as an insurance "*developed in simple language that may be easily understood by management and contracting parties, policyholders and beneficiaries. It does not involve special conditions of insurable individuals and goods that need to be verified before the contract, it only requires the consent of the insured to be granted the insurance.*[36]

The record of SSF marketers updated as of November 20, 2012, includes some private banks, for example, Banco Azteca, Banco Hipotecario - focused on small and medium-size businesses, and agricultural producers- and Banco Agricola. Similarly, the largest MFI in the country, savings and credit society Apoyo Integral S.A., whose products are life insurance and health microinsurance (which is listed as such by Apoyo Integral S.A.).

3.1.2.1.3. Insurance distributed by other mass marketing channels

During our visit, we identified other innovative marketing channels that reach the target population, some more innovative than others, i.e. supermarkets, drug stores, appliance stores, furniture stores, and public service companies. A detailed analysis of products offered by these channels showed that some of their products might qualify as microinsurance because of premium cost. They are personal accident insurance offered by Mapfre La Centro Americana through San Nicolás drugstores, with a premium of $ 4.95 a year personal accident insurance offered by ACSA distributed through Tienda Morena (cost $ 1, 99 a month), some insurance offered by Mapfre La Centro Americana through various electric service companies around the country (Santa Ana, San Salvador, Usulután, etc.). Other products are also distributed through appliance store La Curacao, and SIMAN department stores. SIMAN sells hospital indemnity insurance at about $ 3.75 per month, offered by SISA Vida S.A.

[36] Resolution 2996/2010 of the Peruvian Superintendence of Banks

3.1.2.1.4. Informal insurance

The term "informal insurance" is used herein as the type of product assimilated because of its insurance-like attributes, (payment of a fee transfers the risk to a third party that agrees to indemnify potential loss) but whose "insurer" is not a company, regulated and supervised licensed insurance. Two companies provide "informal insurance" in the country, the target population may see to them as microinsurance.

First, the "autoseguro" (self-insurance) of some MFIs, they do not subscribe credit life insurance, but rather they directly assume the risk of non-payment of credit because of the death of their customers through emergency funds or solidarity funds. This trend depends somewhat on the degree of MFI "formalization" and its access to appropriate insurance products. This insurance may be understood for example with a case of Seguros Futuro that in 1994 created as a way of institutionalizing the legal department of life insurance whose purpose was to grant insurance products similar to credit life insurance through emergency funds.

Second, some prepaid funeral services, certain medical care plans and extended warranty programs for appliances, and other programs have features similar to insurance products. This situation is justified by the payment of a fee for a third party to provide a service when a particular event occurs in the future. Even though during the visit we identified some examples of these, i.e. MediAlerta by Tigo, which provides emergency medical care and home health check for US$ 5 per month, or Health at Your Fingertips offered by FEDECREDITO, it was not possible to get details about this insurance. SSF is open to these products.Aall this time this insurance has been considered assistance, but they are not clear about how to classify SSF insurance product support. This point is vital because as the market evolves, this type of microinsurance program may be multiplied in the country. Some criteria to differentiate these products need to be established. In the case of prepaid funeral service programs, they coexist with funeral insurance; there has not been much debate by insurance companies on the possibility for such programs to be considered informal insurance. This is a key issue in other countries, such as Colombia, where insurers have had a long-standing debate because they believe that Colombian insurers offering this insurance create an unfair competition, since this insurance is marketed by entities that do not comply with prudential, market conduct, and other requirements that are mandatory for insurers.

3.1.2.1.5. Private health insurance and pension

The private sector complements the offer of health and pension insurance under social security. In the event that microinsurance target population works in the formal economy, they will have access to this type of insurance products.[37]

Some supplementary information on insurance products intended for microinsurance target population in El Salvador[38] is presented below:

[37] This study is not intended to make a thorough analysis of products included in the social security context.

[38] This table is only descriptive and it does not pretend to make any judgment on the value offered to the client by the products included.

	Risks covered	Premium cost	Benefits	Description
I. Insurance classified as microinsurance by the supplier				
nd	Death: accidental, special, common, permanent total disability, dismemberment, funeral expenses	US$2 a month	Various plans ranging from US$20.000 and 2.500 with different premiums	Trade name is Vidacoop. No medical examination, immediate coverage, a choice of monthly, quarterly, semiannual or annual premiums
nd	Death of person sending remittance Repatriation	US$35 a year (it increases according to the premium)	Value of the remittances for one year Repatriation of body	Payment by installments for 7 months
II. Insurance supplied by MFI				
	Debt insurance in case of death Funeral expenses	US$15 a year	US$600	Debt insurance added value
	Debt insurance in case of death Death Funeral expenses	N/D	N/D	During the term of the credit
	Debt insurance in case of death Funeral expenses	N/D	Funeral expenses and an additional amount in case of death	Life insurance added value is offered
ento	Debt insurance in case of death Death	N/D	N/D	N/D
	Health	US$3.40 a month	Medical visits (2 a month), a US$2 copayment covers medication for up to $ 20 per visit, lab tests (feces, urine and hemogram) Hospitalization 1000. Medical expenses, x-rays, labs, medications and hospitalization	To access SISA insurance, the applicant must have a credit of at least $ 500 with SAC integral. No selection process. Customers covered until their 70th birthday.
s e	Repatriation expenses	US$48 a year (it varies according to amount insured)	US$1.000 a 10.000	Group policy
III. Insurance provided through mass marketing channels				
n	Personal accidents	US$4.95 a year	Death: US$1.000 Covers medications caused by an accident: US$100	Group policy. A VIP card offering 25% discount on medicines and medical advice is provided
de El	Accidental death Monthly expenses of family group	US$5.99 a month (US$70 a year)	Besides the insured amount of about US$34.000 (US$10.000 for death and then 48 consecutive	For CAESS, CLESA, EEO and DEUSEM costumers (AES regional agencies). It covers monthly expenses of family group in the event of the insured's death in some

Insurer	Distribution channel	Risks covered	Premium cost	Benefits	Description
				ambulance and medical advice over the phone	for subscription, administration of policies, customer care etc.
SISA	Super Selectos	Accidental death and death by homicide	US$4.95 a year	US$100 a month for one year deposited in a prepaid card or certificates for supermarket expenses or one check for US$12.000	Group policy. It has a special bonus, when they choose payment by credit card or prepaid expenses certificates A 200 bonus paid in December.
ACSA	Tienda Morena	Personal accidents, medical expenses, daily payment for accident	US$1.99 a month	US$1.000 and medical expenses for accident up to US$250	Group policy. A "Scratch and Win" card is used to win products from Tienda Morena. Insurance is for one month only.
			IV. Informal insurance		
FEDECREDITO	FEDECREDITO Health System - Health Provider Company (EPS)	Medical expenses	US$2.25 a month Including VAT	Unlimited medical visits, lab expenses US$289.	Individual (unmarried person includes both parents) Family group (children under 24) Single mothers (up to 2 children under 24 and both parents) Consultations in the areas of general medicine, gynecology and pediatrics, With a network of over 220 physicians nationwide, Sign in at Credit Unions and Worker's Banks, member of FEDECREDITO, with over 125 customer care points around the country, Requirements for policyholder: Sole Identification Document. Intended for Members, Customers of Sistema FEDECREDITO who cannot affiliate to the ISSS program and other private healthcare programs
Global Asistencia	Tigo	Medical emergencies	US$5 a month	Healthcare Home medical check up	For Tigo customers
GEA	Banco Agrícola	Assistance to farmers	US$3.42 a month	Emergency Assistance	For Banco Agrícola customers.
GEA	Almacenes Siman	Legal, roadside assistance, home, unemployment assistance, credit card balance	US$2.99 a month	Emergency Assistance and unemployment assistance	For SIMAN customers with Credisiman card.

Table 8. Insurance products intended for microinsurance target population in El Salvador

3.2. Supervision and Regulation

Supervision. SSF is the controlling agency of the insurance business in El Salvador. Therefore, it is the proper supervisory body for microinsurance. SSF recently joined the Financial System Superintendence of Pensions and Securities[39]. SSF's role is to preserve stability of the financial system and ensure its efficiency and transparency. Particularly it monitors the separate and combined activity of institutions in the financial system. In this context, SSF recently adopted a risk-based supervision. SSF is accompanied in its enforcement role with two organizations: Consumer Advocacy and Competition Superintendence, they aim to protect the rights of consumers effectively in all consumer dealings and to promote and protect competition by means of eradicating anti-competitive practices. In this context, controlled entities may be penalized by SSF, DC, and SC.

Other enforcement bodies are equally relevant due to the heterogeneity of entities involved in the microinsurance value chain. "Self-regulation" agencies of certain MFI, this is the case of FEDECACES, INSAFOCOOP, and FEDECREDITO. On the other hand, those agencies oversee certain channels of mass marketing and entities providing health services.

Since at this time there is no specific microinsurance regulation that applies to a differentiated monitoring system, the same criteria applied to conventional insurance supervision are also applicable to microinsurance.

Regulation. El Salvador does not have a direct regulatory framework for microinsurance. The rules applicable to the insurance business are equally applicable to microinsurance. However, all regulations having an impact on microinsurance needs to be analyzed, not only the regulation of the activity and the insurance contract (prudential rules, market conduct and results), but also how such regulation impacts the value chain of such products. This should take into account public financial inclusion policies, frameworks for consumer protection (their adequacy for microinsurance to protect consumers), the financial sector, electronic payments, financial education, the cooperative sector, taxation, etc.

Consequently, the regulatory framework for El Salvador microinsurance would consist mainly of the following standards:

Regulatory framework	Regulation
Insurance contract and insurer's activities	Code of Commerce of 1970[40] Insurance Societies Law[41] (LSS) Regulation of the Insurance Societies Law[42] Standards for Registration of Entities Promoting or Placing Bulk Insurance Policies [43] Standards to Authorize Insurance Intermediaries (NPS 4-11 of August 1, 2010, SFF) Standards for to File Insurance Policies (NPS 4-12 of June 1, 2011, SSF) Financial System Supervision and Regulation Law [44] Organic Law on the Central Reserve Bank (BCR) Draft law to expand monitoring perimeter Corporate Government Standard (NPB-48/2012)

[39] The SSF is integrated into BCR. It has its own legal capacity and equity, its term is indefinite, with administrative and budgetary autonomy to exercise the powers and duties conferred by law.
[40] Legislative Decree 671 of July 31, 1970 and amendments, including Legislative Decree 381 of June 10, 2010.
[41] Legislative Decree 844 of November 4, 1996, reformed by Legislative Decree 910 of December 14, 2005.
[42] Regulation to the law on insurance societies, Decree 44 of April 20, 1999, amended by decree 5 of March 19, 2011.
[43] Approved by the Directive Council of the Financial System Superintendence in session CD-12/04 of March 24, 2004. Amendments approved by Directive Council of the Superintendence in session held on September 14, 2005 and June 2, 2010.
[44] Legislative Decree No.592, January 14, 2011.

Financial activity, financial inclusion and microinsurance enterprise	Credit Institutions and Auxiliary Organizations Law Financial System for Development Promotion Law Law against Usury Credit Card Law Rural Credit Law Standards for Operations and Providing Financial Services Through Financial Representatives (NASF-01/13) Law on Financial Stabilization and Strengthening of Commercial Banks and Savings and Loans Associations Banking Law Draft law for MYPES Draft law for financial inclusion
Savings and loans cooperatives, credit unions, cooperative banks, savings and loans societies	Credit and Savings Cooperatives Associations Law (Decree 339/86) Credit unions and Workers Banks Law Cooperative Banks and Credit Unions Law
Contracts	Civil Code Draft law for digital signature Draft law for legal stability
Tax framework	Tax Code
Health insurance	Law on medications[45] Creation of the National Health System Law
Data protection framework	Law on Regulation of individuals credit history information services
Laundering framework	Ley Against Money and Asset Laundering Guidelines for the Financial Investigation Unit to prevent Money and Asset Laundering in financial intermediation institutions
Consumer protection framework[46]	Consumer Protection Law (amended in 2013) Regulation of the Consumer Protection Law (Decree 52/96)
Competence	Law on Competence[47] Regulation of the Law on competence[48]. Draft law to amend the Law on Competence.
Others	Special Public private partnership law. Law on legalization of housing.

Table 9. Regulation framework applicable to microinsurance in El Salvador

It is clear that its application to microinsurance regulatory framework will be considered in the analysis of the value chain of these products in the next section.

3.3. The microinsurance value chain

This section will analyze some aspects of microinsurance value chain products currently offered in El Salvador with particular attention to the existing tension between speed, simplicity and innovation, and consumer protection. First, we will identify who offers these products, what distribution channels and platforms are used for the products (3.3.1.). Later we will analyze some aspects such as registration and

[45] Legislative Decree No.1008 and published in the Official Gazette 43 volume No.394 dated March 2, 2012.
[46] El Salvador has no specific regulation to protect consumers of financial services or insurances. However, there is a general consumer protection regime that sets forth certain specific standards for financial services and insurance, these is applicable to consumption relationship framed within the financial sector. It is noteworthy that the MYPES draft law, article 31 reads: "Those MYPES complying with the requirements of the law are to be considered consumers for the purpose of the Consumer Protection Law, concerning any legal acts they may undersigned with their suppliers. This does not release them from their responsibility as suppliers and their relationship with the end consumer."
[47] Legislative Decree No. 528, November 26, 2004.
[48] Executive Decree No. 126, December 5, 2006

marketing of products (3.3.2.); subscription and insurance contract process (3.3.3.), claims process and payment periods (3.3.4.) mechanisms for complaints and claims and resolution of disputes available in El Salvador (3.3.5).

Before presenting this analysis, it is important to provide as a point of reference the opinion given during the visit of MFI operating personnel currently offering insurance products to their customers (one CAC and SAC). This staff is familiar with the day-to-day activity of its customers. They found the following constraints in the microinsurance value chain (see table 11):

Agent A	Agent B
• There is confusion between selling credit life insurance and other insurance products. It is not clear which one of them should be priority and if they may coexist. There is some success in financial education among customers and agents. As for the first issue, they highlight its lack of robustness. • There are doubts about product renewal. • Distrust because of the time it takes to attend claims by some insures. • Some credit life insurance requires medical exams, and even AIDS test. In such cases, potential customers choose not to take the exam and decide not to take the credit. • Insurance is becoming a factor considered by potential customers when choosing MFI. • Gender products are necessary, especially those destined for single women. • Customers have expressed their interest in making products more tangible. • Sometimes customers do not understand that premiums are not returned when the event does not occur.	• The most difficult part is the sale. • Neither the promoter nor the consumer has a clear view of the products distributed. • It is not clear which ones are mandatory, which are voluntary, and which product is priority. • It is evident that customers do not trust insurers. • Customers do not perceive any tangible benefits from insurance and demand the return of their premiums. • Difficulty in transportation costs, if any.

Table 11. Perceptions of some credit agents concerning some MFI members

It is equally interesting to see the constraints expressed by respondents in the area of Santa Tecla:

	Potential consumer A 	Consumer B 	Potential consumer C 
Economic activity	Mill operator in a small store across the street from the Santa Tecla market	Owner of store and facilities	Pupuseria in the Santa Tecla market
Average age	40-50	40-50	45-60
Interested in insurance	YES	YES	YES
Policyholder	NO	YES	NO
Reasons for having or not having	No one offers it. He does not trust insurers; he believes they never	She does have fire and theft insurance protecting her business. As her business was	She has requested one but it was not granted because she is in the informal sector.

insurance	honor their obligations. He would rather save. An additional element of distrust was the case of FONAT.	growing she saw the damages caused by a fire in a nearby market, she became interested in getting one. She decided to change insurance company because the previous one did not take into account the irregularity of her income and did not provide grace periods for payment of premiums. She has other insurance (life) mainly offered by savings and loans entities where she is a customer.	She cannot switch to formal business because the municipality has not awarded permanent lease, even though she has applied for it. They have the uncertainty that they may be evicted anytime, even though they pay the lease every month. They have no access to credit because they offer products informally. She used to have access to FEDECREDITO, but she was told that her credit history was deleted; now she has no access to this credit service.
Risks they are exposed	Theft Fire Accidents while using the mill	Theft Fire	Eviction Fire (there is an electricity engine above the facilities to provide electricity to the other tenants, there are several electricity cables in plain view, see picture below) Theft 
Risk management used	Locks Savings	Insurance, Alarms	Fire extinguishers Control of appliances, Act carefully

Table 12. Perceptions of potential and actual consumers of insurance products

3.3.1. Providers and trading platforms used

In El Salvador, the distribution model of microinsurance products most commonly used is the alliance between insurers and an MFI. Furthermore, we found evidence of some innovation channels including supermarkets, appliance stores, pharmacies and utilities.

Consequently, we identified that the most common providers of microinsurance products in the country are duly licensed insurance companies and distribution channels as MFI and certain alternative distribution channels.

3.3.1.1. Insurers

Who may be an insurer in El Salvador, and who offers microinsurance products? Pursuant to Articles 1 and 4 of the LSS, premium based risk insuring may be performed by insurance companies organized as stock companies with definite term and fixed capital divided into registered shares, which must meet specific equity conditions (minimum capital stock, solvency margins, reserve system, etc.)[49]. Most licensed insurance companies in El Salvador are offering insurance products to microinsurance target population (according to the criteria above), including SISA Vida SA Seguros de Personas, Mapfre La Centro Americana, and Aseguradora Agrícola Comercial S. A. (ACSA); Aseguradora La Central de Seguros y Fianzas S.A., Pacifico, ASSA, Aseguradora Popular, etc.

Article 120 of the Insurance Law allowed the existence of insurance cooperative associations that were authorized to operate when the LSS came into force. They will continue operations but they must gradually adjust to certain prudential conditions. This is why Seguros Futuro (the only insurance cooperative in the country) can now operate in the country. However, as currently worded, the generic legislative provision that requires insurance activity to be carried only by stock companies, it would be understood that since the LSS enactment a cooperative could not be organized as an insurance company.

Such provision is negative for the expansion of microinsurance in El Salvador, since it is constraining the possibility of multiplying organization of more domestic insurance cooperatives. The cooperative sector knows better than anyone the microinsurance target population; it is fit to design products that really meet the needs of this population and has a large network to cover the target population. This is evident because this is the only insurer that classifies its products as microinsurance is Seguros Futuro. This is the only insurance cooperative in the country. An important feature of Seguros Futuro is its innovation in the design of products based on its knowledge of the target population. The important role of the cooperative sector in expanding access to insurance has been acknowledged by IAIS, particularly in its document "*Issues Paper on the Regulation and Supervision of Mutual funds, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets*." (MCCOs)

Insurance companies and insurance cooperatives are regulated and supervised by SSF. Such entities must meet certain prudential requirements, including the establishment of minimum capital, the adoption of specific solvency margins, establishment of technical reserves, and adoption of a particular investment regime. Insurance cooperatives must comply with such prudential rules just like insurance companies, and in the case of the minimum capital, is the same as that of life insurance companies (US$931,000). At the same time the Insurance Law came into force (1997), they prescribed a two-year grace period for insurance cooperatives (Article 120, Insurance Law). According to IAIS, such measures are examples of good practices, since it is important to ensure formalization of risk takers, adopting a principle of proportionality depending on the risk assumed (IAIS, Application paper on regulation and supervision supporting inclusive insurance markets, 2012). Article 9 of the Money Laundering Law states that insurance companies and insurance cooperative are required to fill out know-your-customer forms and operation reports, unless those operations exceed US$57,000. Thus, microinsurance products, characterized by low insurable amounts are excluded from this provision.

> "*For many years, insurers have been ahead in the business world when it comes to alert society on the risks of climate change (…). Insurers also recognize the increasing need to develop products and services that respond to the needs of the world that is changing so rapidly, this is the case of <u>integration insurance that covers low-income communities</u>, people living with VHS/AIDS, the disabled and populations with demographic aging problems*"
>
> Ban Ki-Moon, General Secretary of the United Nations

Considering the Insurance Law, no other company aside from insurance companies and insurance cooperative entities may carry out insurance business nor can they tell the public it is performing such activity (Article 75, Insurance Law). In such cases, SSF may stay such activities, bring forth an administrative trial, and disclose it to the public and it will report this situation to the Prosecutor General of the Republic, because this is a crime.

Do insurance companies have any interest in joining the microinsurance business? Eleven Salvadoran insurers out of 21 were interviewed and they answered a questionnaire. All of them expressed interest in

[49] Pursuant to LSS, article 75 it is not allowed to be insured by foreign insurance companies

becoming actively involved in offering microinsurance products, provided some constraints, which will be discussed in detail later, are removed. In all cases, insurers said that the main reason to offer these products is that they understand the social impact of insurance as a risk management mechanism; particularly, because of a lack of appropriate risk management mechanisms. Although sustainability and profitability of these products is a key assumption to offer them, the fact that profitability of this type of product takes place in the long-term, and factors such as loyalty in a new market play an important role in deciding to join that market became evident. There were some statements such as "it is not the driving force of the company but it does create product culture" or "it is not an instant business but it does create an insurance culture." From this point of view Michael McCord's opinion is confirmed: insurers have better options to make money than microinsurance, and if they are doing it now is because of a mixture of motivations, where profitability and interest in creating a social and financial impact take a special place (Churchill & McCord, 2012) (See Figure 13). Such merger of interests or as McCord calls it "equation between social and financial," it is evident in insurance companies in El Salvador and the world. In June 2012, some 30 insurers and reinsurers in the world adopted the United Nations Environment Principles for Sustainable Insurance Initiative stating that: "Through risks prevention and reduction, and sharing them with other stakeholders, the insurance industry helps protect society, encourages innovation and fosters economic development. These contributions are fundamental for sound operation and sustainability of the society."

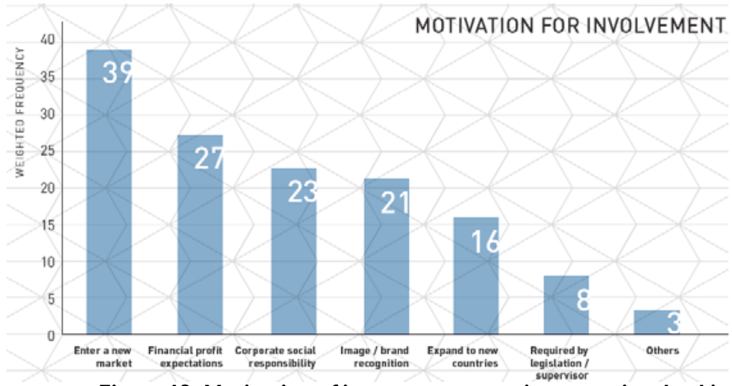


Figure 13. Motivation of insurance companies to get involved in offering microinsurance
Source: (Coydon & Molitor, 2011)

3.3.1.2. Distribution channels and trading platforms

Who can distribute insurance products in El Salvador? According to the Insurance Law, insurers may offer their insurance products directly, through insurance intermediaries, and through marketing channels (Articles 50 and 51 of the Insurance Law).

First, insurance company's agencies and branches make direct distribution. Telemarketing has also been admitted, this is used to subscribe one of the products classified as microinsurance for this study (Mapfre La Centro Americana promoted through some utility companies).

Second, insurance intermediaries[50], (dependent agents, independent agents and brokers) are specifically regulated and must meet certain requirements of experience, training on insurance (currently, brokers must have a minimum capital of US$16,700 and both brokers and independent agents must provide bonds). All these elements seek to ensure the technical and moral competence to advise consumers (Article 50 of the Insurance Law, Article 34 of the insurance law regulation and rules to authorize insurance intermediaries). Insurance intermediaries have a great potential to play in microinsurance, particularly in relation to product design and consumer advice. There are only two brokers currently participating in the value chain, they provide microinsurance services to companies whose target population coincides with

[50] Pursuant to the Insurance Law, Article 50, insurance intermediaries are "*individuals or companies that promote insurance uptake offered by authorized companies, through the exchange of proposals and acceptance, and to provide counseling to subscribe, preserve or modify them, for the best convenience of the contracting party*"

microinsurance target population, or that have supported the design of mass insurance offered through channel to reach the target population. Such as NR Seguros and Tecniseguros (Marsh correspondent). Only two dependent agents were identified (both insurers). One of them, Seguros Futuro emphasizes its social work because it generates employment opportunities to agents. This lack of representation of insurance intermediaries internationally is common, since it is assumed that traditional insurance intermediaries ignore the needs of the target population and microinsurance is not affordable. However, this is not always the case, because insurance intermediaries such as NR Seguros, and some members of the Salvadoran Association of Insurance Producers (ASPROS) are familiar with this population and can identify their needs. Similarly, in countries such as Bolivia, AON has shown great interest in the field of microinsurance and knowledge of this population, or Peru, the broker "Consejeros" has also been linked to offering microinsurance.

Third, article 51 of LSS provides that the activities of promotion and placement of insurance made by the insurance companies may be performed by any company enrolled in the registry of "marketers" of the SSF, prior to executing any agreements, and provided such insurance is voluntary and suitable for mass marketing. However, the meaning of "suitable insurance for mass market" has not been explained clearly. The Insurance Law along with the rules for registration of entities that promote and place massive insurance policies clearly set out the obligations, requirements and other elements to be met by marketers.

Insurer's interviews revealed the following reasons to choose between channels:

1. Reputation
2. Scope
3. The fact that they are supervised by another entity helps
4. Cost

Box 6. Reasons to choose a specific channel

In the case of microinsurance, Article 51 of the LSS is highly relevant given that the vast majority of microinsurance products in El Salvador are distributed by MFI and alternative distribution channels such as utilities, supermarkets, pharmacies and appliance stores. Such channels are chosen based on several criteria, about 11 MFI in El Salvador have endorsed the "Smart Campaign" which aims to promote good practice in dealing with consumers (see Box 6).

Upon exploring with the channels their motivations to distribute insurance products, customer loyalty, attracting new revenue, reduced risk, improved products, recognition of the entity, and competitiveness with their peers and social work mentioned.

Duties and responsibilities of marketing channels. Duties and specific responsibilities to be taken into account by the insurer and the trader are established according to the Standards of mass marketing. The purpose of these rules is to protect the end user to ensure that he/she will receive appropriate, clear and timely information, and that the marketer is financially solid and suitable to act as such. In this regard, Article 5 of the Rules of mass marketing prescribed a series of requirements for enrollment marketing channel in the "*Register of Entities massively marketing insurance policies*" of the SSF. Among them: the copy of the instrument of incorporation where it is clearly or generically stated that among its social purpose or object it may perform actions such as the one requested, certified copy of the administrative agreement that allows the execution of operations and promotion placement of insurance policies, the financial statements with the external auditor's report for the last two years, the marketing agreement, the organizational structure of the channel, copy of balance sheet and income statement; models and marketing policies where reference is already filed the policy, procedure manuals and internal control policies, etc. According to Article 6, SSF can verify the information through field visits and likewise verify the credit quality of the marketer, demanding to be rated in categories A to B in recent years. Registration marketer is indefinite, once registered the marketer this can market other products; however, in each case the insurance company shall submit to SSF model for deposit. In this regard, some insurance companies stated that the registration of traders, is in some cumbersome, slow and considering the requirements for marketers, most of the channels having access to microinsurance target population may be excluded. From that perspective, insurers prefer to use some channels as group policyholders or, prefer to offer insurance linked to credit from MFI.

In terms of training, Article 5 requires staff of marketing channels to attend an “Annual Training Plan" which will include a training program specific to the start of marketing (the attendance list signed by the staff should be forwarded to the SBS). In this regard, ASES provides training to technical and operational staff involved in the sale of insurance through the Permanent Insurance Training School (Central Insurance School). Furthermore, in relation to the reporting obligation of such traders, marketers must provide information to users explaining them that the policyholder is the insurer. In the same context, the staff of the marketing channels must act according to the procedure manuals and internal control policies for the mass marketing of insurance, which shall contain at least the indication of the procedures and controls applicable to: marketing policies, delivery of certificate policies to the insured, premiums received, the transfer of premiums received to the insurance corporation and posting commissions, according to the limit set in the contract and the applicable procedures to process policyholders claims. During the visit, we had the opportunity to do some interviews with staff of some marketing channels, showing one shortcoming in the training of the channels, particularly in the operating personnel.

MFIs – The choice distribution channel for microinsurance products. Due to the high offer of credit in the country, the channels with the greatest potential for offering insurance products to the target population are MFIs. This explains why it is currently the most widely used channel for offering microinsurance in the country. MFIs know the microinsurance target population, have portfolio and accounting systems and computer support, elements that are ideal platforms to fulfill their role as marketing channels for these products. Interestingly it was found that insurance is becoming an instrument through which MFIs compete with one another.

Yet, despite the great potential of MFIs as a marketing channel, we found that the products currently offered by this channel were not varied and were limited to life, personal accident insurance and debt. Similarly, these products are mostly related to credit, and rarely take into account other consumer needs. Under these conditions, it is clear that this is a highly underutilized channel. However, this situation is expected to vary in future years based on three elements. First, the proposed microinsurance REDCAMIF involving some MFIs in the country (only some of which are part of ASOMI) in offering six microinsurance products that are characterized by their innovation. Second, Seguros Futuro shows constant innovation of insurance products, which are designed keeping in mind consumers' needs. Besides, Seguros Futuro is supported by international organizations such as the IDB and ILO. Third, the growing interest of government programs to provide MYPEs access to financial services, which turns into an open channel that may enable the promotion of microinsurance products to MYPEs through credit institutions available to them.

Alternative distribution channels for microinsurance. Such experiences are limited and relatively recent; however, there is evidence of a growing interest in exploring these and other alternative distribution channels, particularly by insurance companies that are not part of any financial conglomerate. The latter is justified given that insurance companies that do not belong to a financial conglomerate are somehow “forced" to seek mass channels as a counterweight to their counterpart banks that are part of a financial conglomerate.

Group or individual? Insurance? Much of the microinsurance products "distributed" by MFI and alternative distribution channels, such as group insurance are underwritten as group insurance. In this case, the MFI or the alternate channel taker acts as "mandatory" or voluntary insurance for their customers (which would be the "insured”). While it is true that group subscription reduces operational costs and facilitates underwriting, etc. one must not overlook the fact that group insurance requires a genuine link between the insured and the policyholder. In this regard, in the case of a credit institution (MFI) this link is present when there is an insurable interest of the creditor; however, this link does not exist in cases where the insurance has no relationship with the credit. However, in cases where this subscription mechanism is used by retailers such as supermarkets or pharmacies, the link is less clear. They are identified as SISA products, distributed through Supermercados Selectos, or the product of Mapfre La Centro Americana and San Nicolas Drugstores. It is interesting that this situation is common in Latin America, and recently Brazil sought to set limits through regulation. Section VI of Resolution 440/12 SUSEP categorized the "promisee" (equivalent to the taker). It stated that: "*the promisee of microinsurance plans must keep a close relationship with the insured group; such connection must be defined clearly and objectively in the Group Contract.*" Specifically, this close relationship does not imply "*the consumption relationship or link between providers of products and/or services (including financial services) and their consumer groups*," in which cases such institutions must be organized as "*microinsurance correspondents*."

Financial correspondents. Recently, through the Technical Standards to perform operations and provide services through financial correspondent (financial correspondent standard), the opportunity that some financial institutions (domestic banks, branches of foreign banks, savings and credit, and cooperative banks, leaving out many of the unregulated and unsupervised MFI) might perform certain operations and provide certain services through "financial correspondents" was anticipated.[51] When such financial institutions act as insurer marketers, they may be used as financial correspondents that are part of its network. This effectively extends not only the transaction platform for insurers (such as collecting premiums and claims payments), but the scope of the channel, since the standard expressly provided financial correspondents between transactions that financial correspondents can perform the "promotion and placement of insurance suitable for mass placement, provided that the entity is registered as a mass marketer." In these cases, the standard banking correspondents stated what financial institution would be responsible for the financial correspondent to be properly trained. The financial institutions authorized to use financial correspondent do not include insurance companies, so they cannot use that channel directly. A different situation happens in Peru, where insurance companies are included in the list of entities that can benefit from such correspondents. During the visit, it became clear that all participants in the microinsurance value chain consider the standard financial correspondents a great opportunity for microinsurance. However, the most obvious concern regarding the real extent of these correspondents is the way in which violence affects the country.

Other trading platforms. The platforms used to perform microinsurance transactions in El Salvador, such as underwriting, premium payment, payment of compensation, policy administration, etc., are those directly used by insurance companies, insurance intermediaries and marketing channels. It is interesting to highlight some cases that show the status of market development in El Salvador.

First, the "call centers" used by some companies (Mapfre La Centro Americana) to subscribe insurance contracts (discussed further in the subscription section).

Second, many Salvadoran MFIs have agreements with remittance companies like RIA, Money Gram, Western Union, etc. These agreements serve to extend the transactional platforms that include these entities, and allow the design of insurance products linked to remittances.

[51] The standards for financial Correspondents are defined in Article 3 as "*individuals and companies doing business in the Republic of El Salvador, who have their own facilities or (lease from) third parties and provide services to the public,*" which undersign a contract without a relationship of dependency so that at the expense and under the responsibility of the financial institutions described above, they may do business and provide certain services. The term financial correspondent refers to "*a channel of subjects exercising complementary activities to those of their core business,*" according to an agency contract.

Third, the teller network of the cooperative sector is outstanding.

Fourth, among the operations and services allowed between financial correspondents are collecting payments of public and private services and transfer payments from abroad, including family remittances, such correspondents extend the payment platform of insurance companies, where such institutions are the collectors thereof. In this case, organizations like Apoyo Integral have a wide network of affiliated establishments where payments can be made, as in the case of Puntos de Venta Express (points of sale). They may be found in supermarkets, drug stores, restaurants etc.

Fifth, mobile phone. During the visits there was no insurance product using mobile phones in spite of the penetration of cell phones in El Salvador.[52] The cell phone may be used in the microinsurance value chain in several ways: first, as a communication tool with the customer. In such a case, it is generally used to send SMS to transmit product information, notify the premium payment term, or transmit information related to medical examinations, etc. This is the way the mobile phone is used by CIC insurer in Kenya, Jubilee Insurance in Kenya for the product YuCover designed with the support of MicroEnsure[53]. Second, mobile phones may be used as a tool to capture information, as in the case of AIC in Haiti, TATA AIG in India, and FinoTech in India. Third, to make payments, such as the case of MiLife in Ghana. Although cell phone is underutilized by the insurance industry in El Salvador, it is likely that its use will increase, particularly as a payment tool, provided the draft law to facilitate financial inclusion sets out the requirements for the establishment and operation of entities authorized to receive money and turn it into an electronic entry (e-money). This method has great potential to facilitate operational and transactional processes in the context of the insurance contract. A review of statistics provided by consumer advocacy show that cell phone providers such as Claro, Telemovil and Telefonica in the top 10 of most reported (sued) suppliers between 2010 and 2012. These statistics may reflect that the population has no confidence in such suppliers.

Finally, some financial institutions are implementing sophisticated technology tools to facilitate the processes applicable to their operations, as in the case of Enlace, a financial service company that uses an advanced barcode system and a series of financial correspondents that facilitate payment of claims, about 30% of payments are made to Enlace this way.

3.3.2. Registration and product marketing

SSF registration and approval process. In El Salvador, insurers are free to determine the conditions of the policies. However, according to Article 47 of the Insurance Law and the Standards for filing insurance policies, insurance may only be hired with model policies previously filed in the SSF[54].

Once the policy is filed in the SSF, SSF can within a term "not exceeding thirty days from the filing date, recommend changes where appropriate if it contains any clauses opposed to the legislation or when the bases are not sufficient to cover the risks, insurance companies within ten days of receipt of the reasoned decision, must submit the corrected models to the Superintendence." SSF shall notify insurance companies, within twenty days following the date of receipt of the corrected models, whether they comply with of their remarks. In this paragraph, all "days" are calendar days and may be changed by natural disasters and force majeure.

From this point of view, the process in theory should last about 60 days. However, during our visit, we were informed of the delay in the registration process by the insurance companies as one of the biggest constraints with the supervisory body. In some cases, this process may take about 6 months. Some

[52] See the context.
[53] MicroEnsure is an international broker specialized in microinsurance. To offer their services, they are registered as a broker at the appropriate jurisdiction. This same pattern is followed by PlanetGuarantee and Paralife.
[54] However, for large risks insurance, where the premium should exceed US$8,900 they can subscribe insurance with a model of unfiled policies.

insurance companies admit that sometimes they do not respond within the terms, just as SSF admits that these processes may be taking longer than usual.

Analyzing the registration process carefully, we believe that the reasons for this delay are
1. the involvement of two departments in the registration process that in some cases have no direct communication channels or homogeneous criteria to file the policies. The Insurance Intendance is involved in the approval process, is responsible for reviewing the technical note, and the Directorate of Legal Affairs is responsible for reviewing the clauses of the policy, and in some cases, the SSF customer service department is also consulted.
It should be noted that Article 22 of the Consumer Protection Law set forth that, in the case of contracts of adhesion, which is applicable to the present case, the Consumer Advocacy will verify, along with the institution in charge of controlling and monitoring (in this case SSF) within a period not exceeding 30 days, "the filed forms," in this case, the model policies. Therefore, according to the Consumer Protection Law, a third party needs to participate in the process, delaying it even longer.

2. The staff in charge of the registration process of the policies has high technical and analytical insurance skills. However, they are overloaded with work because aside from taking part in the approval of products, they also provide support to other SSF departments and carry out supervision.

3. When there is a discrepancy between the Administration of Insurance and the Department of Legal Affairs the issue is discussed to reach a consensus. Even though this process is relevant, it may result in extending the registration period of any product. These discrepancies are more common in cases when the products to register are characterized by innovation and simplicity. Currently, they are implementing a survey on the institutional process for faster service as part of a process of institutional improvement (SSF, 2012). Similarly, we learned that the relationship between the Directorate of Legal Affairs and the Administration of Insurance has improved because of aligning criteria.

Policy registration should support only the pure risk premium, which must be based on actuarial and statistical bases by line according to Article 14 of the Rules of registration policies. Although accurate statistics and actuarial bases of the microinsurance target population do not exist, Article 17 provided for the possibility of using the rate of reinsurance premiums or bases in other countries. However, after 5 years, this experience must be sustained on its own basis. According to the insurers, there are now too many documents required to support the sheer risk premium.

Once approved, policy models are stamped with "Filed in the SSF."

Box 7. Mystery Shopping in San Nicolás Drugstores

Mystery shopping in San Nicolás Drugstores

MAPFRE La Centroaméricana offers a personal accident insurance through San Nicolás Drugstores. The premium costs US$4.95 and the amount insured is US$1.000 in the event of accidental death and US$100 to cover medication expenses caused by the accident. This product is a component of the "VIP customer card," it also provides free medical advice, discounts on medication in affiliated stores. During our visit, we verified that many people purchase the VIP card are not even aware they have also subscribed to an insurance product. It was also evident that the drugstore's personnel do not understand the difference between the VIP customer card and the insurance, and the coverage and conditions of the product are not clear.
The insurance is linked to the VIP customer card, if it is misplaced; the customer loses all contractual insurance rights, in all cases they need to purchase another card for new coverage. They offer VIP products on posters, brochures, internet, Facebook, Twitter and other social networks.

Marketing microinsurances. Insurance companies offer their products directly or through their insurance brokers or marketing channels. Usually this is done through posters and brochures about the products in agencies, offices and channels used. In all cases, such information should be characterized by transparency

(Article 52 LSS) and must take into account the rules of illegal, deceptive or false advertising under Article 31 of the Law on consumer protection. In this regard, any publicity inducing to errors, consumer deception or confusion is prohibited.

In terms of innovation, the most interesting developments have taken place when alternative distribution channels are used. Such as the product of personal accident insurance Mapfre in San Nicolas Drugstores, ACSA in Tiendas Morena, and personal accident insurance SISA Vida SA (see Boxes 7 and 8). In such cases the marketing methods include offering insurance as part of the benefits of a loyalty card that offers tangible benefits such as discounts on medicines in San Nicolas Drugstores, or the delivery of a card "scratch and win" for the purchase of insurance through which one can win household products (of those offered in the channel). Furthermore, the format of the product offered by SISA in Supermercados Selectos is innovative; it has the form of a Coupon Pad and it is offered on the shelves that are next to the cashiers.

Seguros Futuro delivers financial education events where the importance of risk management is presented. At the end of these events, free insurance products are offered to some of the members of the cooperative where the event was held. The cooperative subscribes and pays the insurance premiums of its members, so that they do not pay any amount for those products. At the end of these events, insurance products are sold to members of other cooperatives. This mechanism is interesting since it operates as a bridge between financial education and real platform access to these products. It is important to mark a difference between financial education and marketing of products. Product marketing involves the promotion of a particular product, while financial education focuses on creating awareness of the importance of risk management and the potential role of insurance as a risk management mechanism.

At international level there are multiple methods of marketing insurance products intended for the target microinsurance population, for example, India Max New York Life Insurance hired a well know Bollywood actor to offer their products on television, brochures and other materials. In Kenya, the International Livestock Research Institute uses radio campaigns; Haiti AIC, has also hired an actor to promote its funeral insurance product and uses tools like radio, SMS, a van with posters showing product information, in order to penetrate hard-to-reach areas, etc. In Colombia, Sura offers some of their products on the shelves of a supermarket, using allegorical figures to the product offered, in this case a box of crayons to promote insurance education.

3.3.3. Subscription

Right and obligation to report. The policyholder and /or insured must know and understand the conditions of the contract to be signed or which will be insured before execution. In this context, the Commerce Code (rule governing the insurance contract), LSS and Consumer Protection Law emphasize the importance of information as a right and obligation of the supplier. In this regard, it was emphasized in Article 27 of the Consumer Protection Law that they should be informed clearly, accurately, completely and timely. Consumers should know their obligations and the marketer is best qualified to convey such information. In this context, it is essential that such channels, particularly those who are not insurance professionals are trained in and comply with the reporting obligations to ensure that the policyholder and /or insured may provide a free, prior and informed consent. However, the relevant regulatory framework does not state clearly the responsibilities in this regard, except for the information provided in the procedure manuals and internal control policies to be attached to the registration record of mass marketer. According to the requirement to file policies these manuals shall contain as a minimum: procedures and controls for marketing policies, policy certificates delivered to the insured, premiums received, transfer of premiums received and claims of policyholders. Article 52 of the LSS, establishes that only insurance companies and intermediaries are required to provide information. Article 52 of the LSS provides that "insurance companies and intermediaries should provide users of their services the information necessary to achieve greater transparency in the operations they perform and allow the user to choose the best options in the market. Considering the type of service provided by insurance companies, the Superintendence may set minimum information requirements for the public."

One of the most common problems concerning the rights and obligations of information identified during the visit was not correctly reporting the consumer's obligations, including the obligation to report accurately the state of risk, notice of loss, periods of claim, statute of limitations, etc. This situation is particularly common in cases where insurance products are distributed through savings and credit institutions (bancaseguros). Some claim that in many cases loan officers fill out the application forms for customers and encourage them not to read carefully the rights and obligations associated with insurance. If these problems are common in massive conventional insurance, where insurance consumer is more familiar with these products, one can expect that these problems will be even more serious in the case of microinsurances.

In this context, the importance of the obligation and the corresponding right to information, the Consumer Protection Law also recognized the right to education and training in consumption, where the Consumer Advocacy and the Ministry of Education will be the promoter. This item is to be considered in creating financial education strategies related to Risk management and insurance in the country.

Mechanisms to inform the consumer are generally based on the transmission of relevant information about the contract in writing. According to the Commerce Code, the future policyholder submits an application for insurance to the insurance company with the full text of the general conditions of the contract, for which the insurer agrees "in writing" in the terms provided and the insurance contract shall be deemed completed. This is consistent with Article 22 of the Consumer Protection Law and five of its regulations, in the sense that consumers should have the right to know the standard-form contract before making such subscription. "The provider" should provide a printed copy or otherwise. Similarly, the insurer should enable the consumer to read the policy carefully before signing it, or even have it read by the person designated by the consumer, if he cannot read it. These forms should not have "free discussion clauses," the clause whereby disputes are submitted to any alternative means of resolution and the circumstances under which such contract is extended.

Because of the speed of the transaction characteristic of microinsurance, the application and acceptance processes by the insurer takes place at the same time. For products offered in San Nicolás Drugstore or Super Selectos, the contract is completed at the time the "insured" signs the contract.

Additional requirements prior to the execution of the insurance contract. In order to avoid adverse selection of risks, insurers usually evaluate risk status prior to completing the insurance contract. In these cases, medical examinations are performed, questionnaires filled out as requested. They request additional information related to the insurable object, etc. These kinds of prior verifications are not common in the case of microinsurances, since they hinder the speed of the subscription process. Indeed, in this context, an important finding was that one of the reasons why group agreements are used in microinsurances is the failure to make individual risk verifications, such as mandatory medical examination (1494 Code of Commerce). In this regard, Article 1493 of the Commerce Code prescribes that "popular insurance," a type of insurance planned in 1970 was abandoned. It was characterized by the amount insured not exceeding 5,000 colones (equivalent today to US$ 570), and, so, the mandatory medical examination was not required. In this context, the role of the declaration of "insurability" is very important for risk selection, so it must be well written and comprehensible for microinsurance consumers. If an accurate and honest statement of "insurability" is not issued, the contract may even be annulled. During the visit, we learned of some policies in which such statement of "insurability" is not properly worded, for example, stating that the person claims he/she does not suffer any terminal illness "of which he is (is not) aware of."

The signature as proof of consent. The fact that the insured's signature is required in the insurance application followed by the insurer's written acceptance shows the importance of the handwritten signature as proof of consent. Article 1462 of the Commerce Code requires the consent of the third party in writing in the event that insurance is maintained to cover his death. Similarly, this consent must be given in writing to any beneficiary designation. Electronic or digital signatures cannot be used in El Salvador, but they might be used in the near future, because there is a draft law to support them. According that project, such electronic signature will have the same value as a handwritten signature. The certified electronic or digital signature and information will have legal legitimacy. The impact of such a rule would be important for microinsurances because this would facilitate the underwriting process and the use of electronic media to transact insurance under the contract. However, this project does not provide a regulatory framework for electronic commerce, which is lacking in El Salvador.

Subscription for call centers. It is now possible to sell insurance by phone; in this case, the process is the following. First, after an analysis of electricity customers, they identified potential customers. Second, they call and offer the insurance product. Such calls must be recorded, so that the acceptance of insurance is recorded, and the staff making calls follows a script that has already been filed at SSF. Payment is made by credit card. This has caused confusion in the beginning, particularly with regard to the possibility of accepting card charges under these conditions.Hhowever, today there are no constraints in this regard. Then they send a copy of the policy to the policyholder to be signed he/she has a term of 15 days to decline the contract. He /she agrees by signing it and sending it back to the insurer. In this regard, SSF has opened the possibility of using this platform of subscription. However, during the visit it was evident that insurers lack clarity on the criteria. In discussing the issue with the Consumer Advocate, some problems arose when the customer did not associate the call very clearly with the purchase of a product and considered it mostly as an advice rather than a sale.

Box 8. Mystery shopping Superselectos

Mystery shopping in Superselectos

The product is distributed on the stands in next to the cash register in the supermarket. Its subscription is voluntary. They assume a prior knowledge of the product since the cashier does not provide such information. There are also some promoters at various supermarkets from this chain, they approach the customers while they shop and offer the product. At the time of a purchase, we asked the cashier about the benefits of this insurance, it was obvious that there was confusion on some coverage, however, she requested the help of the cashier director to clarify these points. The cashier director did provide detailed information of the product. This shows some weakness in training operative personnel on the subject

The policy. One of the choice tools to meet the reporting obligation is the policy, which has been regulated by Articles 1353, 1428 and 1449 of the Commerce Code, and Article 47 of the LSS, Article 12 of the standards for filing insurance policies, articles 22, 27 of the Consumer Protection Law on contracts of adhesion, and Articles 4 and 10 of the Rules of the Consumer Protection Law. Condensing such rules, it may be concluded that the policy is made up of the insurance application, general conditions, special conditions (those in the face of policies), and special conditions that are extensions of coverage. Insurance companies must give the policyholder a policy that must meet the following requirements:

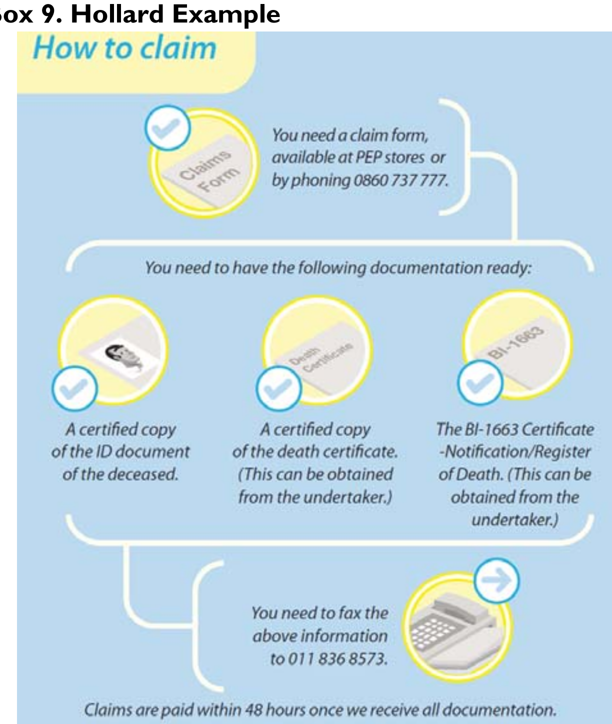
- ✓ They must be written in Spanish
- ✓ They should use types and font sizes readable for users. Thus, they must be written in eye-readable characters, so that the letter cannot be less than 10 cpi
- ✓ They should be written in plain language specifying essentially: the nature of the contract to which the parties agree, the object and purpose of it, and the

specifications on the good or service contract, the term of the contract, the price, taxes or fees, billing and payment, the manner in which the consumer can make claims; rights and obligations of the parties and termination forms

- ✓ They should make no references to texts or documents that are not previously delivered to the consumer to or simultaneously with the contract
- ✓ They should not contain waivers of rights that the law provides for the consumer
- ✓ "*They shall be grouped in different bodies of the contract, both the rights of the consumer and the supplier, as well as the obligations of both, and all specifications related to cost, including the price, fee or other costs or charges associated with operation, such as commissions, fees or insurance, which have been a condition for the contract*"
- ✓ No clauses that would qualify as abuse under Article 17 of the Law on consumer protection
- ✓ They are to specify the treatment to be given to cases of payment when due date is a non-business day
- ✓ They should specify the covered and excluded risks, how to enforce the claim, the deadline, premium and any other relevant circumstances
- ✓ In addition to the above, the information must include: place and date of issuance; names and addresses of the parties, name of the person or the insured, the nature of the risks covered, the time at which coverage begins and its validity, the insurable amount, premium and payment; clauses in the insurance application, signature of the authorized representative of the insurance company, any signature or signatures required.

Particularly for debt insurance, Article 1428 of the Commerce Code requires to include in addition to the prerequisites the name and address of the creditor, the amount, interest rate, term, warranty and date of issuance of debt. Where the security is foreclosed, the name of the notary in whose office the corresponding deed was signed and the filing number in the registry. According to Article 20 of the Consumer Protection Law, it is prohibited to charge credit life insurance on the insurer.

Box 9. Hollard Example



Life insurance policies require further to include the following information: date of birth of the persons to be covered by the insurance, the beneficiary's name or how to determine it, the event or the term on which depends the enforceability of the indemnity.

International practice in microinsurances has been simplified adopting policies that are treated as a summary of coverage that simply explains the coverage and exclusions applicable to the insurance contract processes, rights and obligations and grievance mechanisms and resolution of disputes. At the industry level, there are experiences where the policy is accompanied by a didactic instruction, explaining clearly all the processes applicable to the contract, as in the case of Hollard in South Africa (see Box 9).

In that sense, it has sought to ensure that consumers understand their rights and obligations, avoiding multiple documents characterized by their length and complexity. This is not appealing for microinsurance consumers and they find them confusing. In practice, offering microinsurances providers in El Salvador prefer the use of individual insurance certificates, which contain minimum information of insurance conditions. In this trend, for example, Seguros Futuro has made efforts to simplify the policy, as well as the requirements for signing the contract. Similarly, products distributed through San Nicolas Drugstores, Tienda Morena and Super Selectos, the document given to "insured" is very brief, but still includes the most relevant consumer clauses, and they also refer to models underlying the policy. These certificates have interesting formats, usually in A5 size (see for example, Box 9). These attempts at streamlining are important but insurance companies have expressed interest in clarity on the use of such documents.

The only rule that references the individual certificate of insurance is the standard for filing insurance policies. This is done by specifying that such certificate is the "document issued in the case of group insurance, linked to a particular insurance policy which contains the minimum information about the conditions of insurance." Apart from this article and a brief reference in the Commerce Code, there is no evidence of any more regulation on group insurance.

Handling confidential information. In El Salvador, there is no legal regime systematically governing data protection. In this context, Article 2 of the Constitution admits the right to privacy, Consumer Protection Law and Article 96 of the LSS, which states, "all information contained in the policies will be confidential and such information may be disclosed to the insured person, the endorsee or the legal representative. Information under the third paragraph of Article 5 of this Law relative to the objections is considered confidential." Sharing personal information without proper authorization of the consumer is considered an abusive practice (Article 18 Consumer Protection Law). Moreover, the figure of habeas data as a tool of informational self-determination is not explicitly recognized in El Salvador.

Premium payment. The premium is due at the subscription of the contract, and the insured has a grace period of one month from maturity of conventional or legal (Article 1363 of the Commerce Code) term. During this period, coverage shall not be suspended. However, once the deadline expires, the insured has three months to rehabilitate the insurance through the payment of premiums due but the effects in the contract during those three months will be suspended. At the end of that period, the contract will expire. Article 1485 of the Commerce Code prescribed that for life insurance, the effects of the contract shall cease automatically 30 days after the due date of the premium. In the case of popular and group insurance, the insurer may agree to automatic suspension or revocation when the premium is not paid timely. When the premium is made through mass marketing channels, Article 18 of the Consumer Protection Law classified as predatory behavior, the complaint or record of the payments made by the consumer, with a date subsequent to that in which it is actually made . In this context, it could be interpreted that rule to be considered that the payments made to the marketer on a certain date, are regarded as made on the same date to the insurer.

Unfair terms. The Consumer Protection Law, Articles 17 and 18, prescribe a list of unfair terms, which are deemed implicit. The following are highlighted: clauses that allow the supplier to modify the contract unilaterally or evade obligations and reverse the burden of proof to the detriment of consumers, extend the contract without the consumer's consent, and to impose any alternative means of dispute resolution in contracts of adhesion. In order to verify that these clauses are not used, the advocacy can make use of its power to check and review contracts of adhesion. In case such clauses exist, a notice shall be sent to the supplier to decide within 5 days. In the event that such clauses are deemed unfair, remedy them will be requested within15 days otherwise the use of such contracts will be banned and removed. In this case, the corresponding penalties apply. The Consumer Protection Law provides for abusive practices, including consumer discrimination on grounds of disability, gender, race, religion, age, economic, social or political status; share personal information without appropriate authorization; post or record payments made by the consumer, with a date later than that in which he actually did, extend or renew fixed term contract automatically without the consumer's written consent.

Right of redemption. According to Article 977 of the Commerce Code there is a period of 15 days from receipt of the policy to withdraw. Under Article 13A of the Consumer Protection Law, this right can also be used in cases where recruitment takes place outside the service provider's facility where there is no request, in distance contracts, and when such right is acknowledged in the offer, promotion or contract. Failure to reimburse the amounts paid within 15 days from the communication of withdrawal is considered a very serious offense under the Consumer Protection Law.

Contract term and automatic renewal. In cases where the insurance period is not agreed, this will be one year. After the agreed period expires, the insurance contract ends unless the consumer has given a written consent to renew it. In this regard, as previously indicated it is considered an abusive practice and therefore prohibited, automatically extending or renewing the fixed-term contract without the consumer's written consent. The policyholder and /or insured may terminate the insurance contract at any time, under the same conditions it had at the time of the execution such a procedure should be told to the consumer at the time of the execution.

3.3.4. Claim and payment of claims

Notice of loss. According to Article 1374 of the Commerce Code, once the insured or the beneficiary is aware of the event, he must notify the insurer in writing within a period of 5 days (unless otherwise agreed). In the event that the insured or beneficiary fails to meet this obligation within such terms, the insurer may reduce the benefit, and if the notice is not provided with the sole purpose of preventing a timely verification of the circumstances, the insurer shall be released from its obligations. Such notice must be made at any office of the insurer (unless expressly agreed otherwise) and when the insurer changes the address assigned in the policy, he must report it to the insured and beneficiaries, otherwise he cannot claim reduction provision for not receiving notification of the claim within the term provided. Meanwhile, the insurer shall send all requests and submissions to the insured or the beneficiaries at the last known address.

Submitting claims and payment of compensation. The framework applicable to microinsurance does not specify how the claim should be filed; it simply provides that compensation shall be due 30 days after the date the insurer receives the documents and information to disclose the basis of the complaint. In this regard, no indicative list is provided. Article 1375 of the Commerce Code provides that "the insurer shall be entitled to require the insured or the beneficiary all factual information related to the event that may enable him to ascertain its circumstances and consequences." In this context, it is possible that the claims process and payment of compensation is hindered by constant requests and information to verify and to support the claim. This situation is particularly mentioned several times by some MFI credit agents. There is a list of documents required at the time of the claim for individual microinsurances certificates in El Salvador, a practice that is quite positive and could be standardized.

In the case of microinsurances, it is difficult in many cases to get some documents because of the conditions of the target population. Either because they do not have them as a result of the exclusion in which they live, for example, lacking DUI and /or NIT (in interviews with some loan officers of some MFIs, most of their customers do not have NIT), or because some costs are incurred in getting such documents, which may be transport costs to administrative centers, or costs for obtaining and /or certification of birth and death certificates of a certain age, medical examinations, etc.

Article 1415 of the Code provides that "to collect compensation for fire insurance must comply with the relevant judicial proceedings." So all fire insurance claims require a judicial proceeding, identified as "Commercial Payment Authorization Measures of Compensation Insurance." This poses an obstacle to the speed that should characterize microinsurances. However, such judicial process was repealed by the new Code of Civil and Commercial Procedure, and likewise this code does not establish what judge is competent to make such non-contentious proceedings (in the past it was the judge of the jurisdiction where the incident occurred). A recent judgment made this complication evident and it was concluded in that case that the applicable process was abbreviated and that the competent judge belonged to the insurers' domicile. All these elements make it evident that such requirement is an obstacle, has a highly negative impact on microinsurance, particularly when considering that microinsurance target population has little access to justice, and has very limited resources to engage in such legal processes.

For the payment of credit life insurance, Article 1435 of the Commerce Code provides that when the insurer makes a payment, he must get the documents supporting the insured debt, duly paid up to deliver them to the debtor or his beneficiaries.

Payment may be made in kind.

3.3.5. Complaints, claims, and conflict resolution

Complaints and claims with insurance companies. Regarding the tools to file complaints and claims, section 19 of the Consumer Protection Law provides that all financial institutions, including insurance companies, must appoint an executive in charge and create a formal consumer service, whose purpose is to receive claims, prescribe applicable mechanisms and procedures applied at reasonable response times. In practice, such entities sent monthly to SSF reports of cases and they consolidated statistics on complaints that they receive from their customers. In this regard, it is noteworthy that these statistics are not published.

Resolution of disputes. If a complaint to the insurer is not resolved, the consumer of insurance products is eligible to file any complaints to the SSF Customer Care Department (DAU) (created in 2011) or before the Consumer Advocacy (DC). Although it is assumed that the normal procedure would be to file a complaint first to the insurance company, no evidence was found in the regulatory framework of any requirement for it to be a prerequisite to filing a complaint to DAU, or to the DC. Similarly, no evidence of a provision was found establishing that the complaint is to be filed first before the DAU or DC. However, what actually takes place is that the conciliation proceedings before the SSF, where DAU is responsible, must be exhausted before initiating processes in other judicial instances, that is, "*no court will admit any claim against an insurance company if the applicant does not declare that he has exhausted a conciliation procedure at the Superintendence*."

In particular, DAU attributions are to resolve concerns, clear doubts and solve disagreements with financial institutions. In this context, the consumer must submit an application for complaint, stating his reasons for filing it, and then the DAU responds to his request in writing. This response is not binding or enforceable, since SSF has no judicial power. During the visit, we highlighted the relevance of the DAU based on the cases it receives, it is aware of the provisions and the most problematic practices for consumers. This information is essential to support the process of registration and product approval. Similarly, the DAU currently operates as a bridge between SSF and the DC. However, the DAU has limited staff, that despite of having excellent training, they have a rather large workload, and second, we found that the DAU is less known than DC by consumers.

Provided the above, consumers have three main venues to resolve disputes arising from insurance contracts. 1. The conciliation procedure set forth in the LSS, Articles 99 to 106 (see Figure 14); 2. Submit to the Dispute Settlement Center in DC, and 3. Use traditional justice (ordinary jurisdiction).

However, as previously stated, Article 17 of the Consumer Protection Law prohibits the imposition of any alternative means of dispute resolution in contracts of adhesion. Even Article 44-item g, provides that such a practice should be penalized as a "very serious" offense unless such clause has been freely discussed between the parties. While interest in this provision is understood, in the case of microinsurances it may be more harmful to the consumer because: (i) the speed and simplicity that should characterize the subscription may be affected, it is very difficult to discuss a clause of a contract freely, and (ii) if such clause is not discussed, there could not be any benefit from any alternative means of dispute resolution, a situation that would leave consumer in a vulnerable spot, because he/she can hardly have access to ordinary courts, and he will only have the alternative of reconciliation before SSF. To prevent this situation, one might consider that Article 120 of the Consumer Protection Law[55] is applicable to the clauses that include other alternative means of dispute resolution. So for these means of resolution, as well as arbitration, it may be possible to include such clauses in the contract so long as they appear as additional clauses, emphasizing that they were freely discussed by the parties. Thus, the prohibited practice is that such clauses are included as part of the printed clauses in the generic forms of adhesion contracts. In this case, the concern for consumer protection is the potential lack of knowledge and adequacy of alternative means of dispute resolution selected in the adhesion contract, the alternative would be to make sure that consumers get transparent, accurate, timely, and understandable information in such mechanisms.

Reconciliation before SSF and the Centre for Dispute Resolution of the DC are mechanisms of positive conflict resolution concerning microinsurances, since such services are offered in a simple, quick, free and confidential manner. This makes more sense considering that the target population usually finds restrictions to access the ordinary courts.

Particularly, alternative means of dispute resolution provided under the Consumer Protection Law and its regulations offered at the Center for Dispute Resolution of the DC are "settlement," conciliation, mediation, and arbitration (see Figure 14). In relation to arbitration, Article 136A provides for arbitration with simplified procedure for small claims. This is applicable to cases where the claim is for an unspecified amount and for an amount lower than $ 3,000, which may include most microinsurance products.

In the context of faculties for resolution of conflicts, DC is the agency that keeps and publishes statistics on its website on this regard. According to DC statistics, 27% of the complaints they receive are for this sector. During the visit, they reported that in the case of insurance, the most common complaints are related to improper payments, lack of information regarding the obligation to submit a risk status statement, excessive use of group insurance in which the lender assumes he can uptake insurance to cover any risk of its customers, filling out of third party insurance applications, particularly in bancaseguros.

It is noteworthy that, a few years ago, the Insurance Companies Association of El Salvador (ASES), which conglomerates 15 out of 21 Salvadoran insurance companies, designed an Insured Defense project. This was based upon the Insured Advocacy of the Peruvian Insurance Association (APESEG). According to that project, ASES Insured Defense could know low-level conflicts in which the insured could only be individuals. Although SSF supported this initiative, the project was shelved due to lack of agreement among insurance companies that were ASES members.

Finally, according to Article 1383*, "all actions arising from an insurance contract shall expire in three years from the date of the event that originated them.*"

[55] The law sets forth that: "*Concerning adhesion contracts, the arbitration clause is not to be included in the printed clauses of the forms used, but rather it should be included in an added clause after being freely discussed by the parties.*"

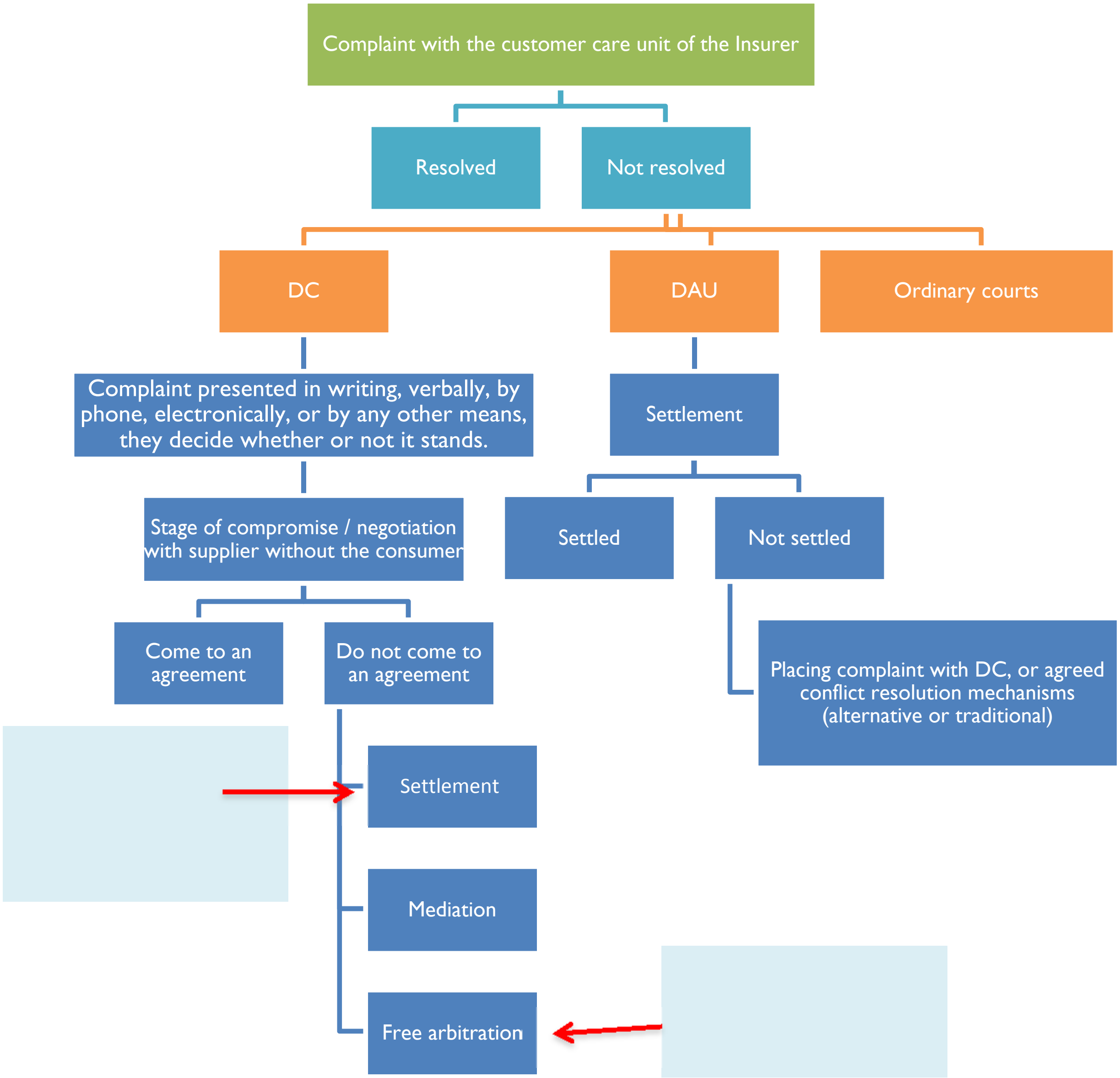


Figure 14. Methods available to manage complaints and conflict resolution

4. CONSTRAINTS AND STRATEGIES

Considering the environmental analysis of microinsurances in El Salvador, we present here some constraints that were identified during the study, and strategies we suggest to be adopted to overcome these constraints and improve microinsurances environment in El Salvador, circumstances that promote and facilitate the development of this market in the country. First, we will identify constraints and strategies for the public sector; then those constraints associated to regulation and supervision applicable to microinsurances; and then, those related to the supply (suppliers and consumers).

4.1.1. Public Sector

4.1.2. Constraints

The state's lack of awareness of the importance of risk management and insurance. One of the most important findings is that the state has no clear risk management policy focused on mitigation; its efforts are aimed at prevention and response to disasters. This position is surprising considering the high degree of exposure of the country to natural disasters, and how these events evidently affect economy. In this respect, the country is highly dependent on international help. It is until recently that the topic of risk management through insurance has begun to arise in the context of the MARN Climate Change Strategy. This lack of awareness is also reflected in the context of financial inclusion and financial education program where insurance is not even mentioned.

Some MYPE government programs, public housing, conditional transfers, etc. are not being used properly to promote access to insurance. Given the lack of risk management awareness of the state, one can understand why the topic of risk management and insurance in programs lead by CONAMYPE, or by FONAVIPO (the National Housing Fund) has not been included.

CONAMYPE's programs are based on the idea of promoting the social web particularly taking advantage of associative groups, including farmers associations, microenterprises linked to making school uniforms. Such associative groups have significant potential as channels or as groups covered by microinsurances. Similarly, CONAMYPE is implementing a program to access financial services called CRECES Mipyme. Besides offering certain financial services, it has a cooperating financial advisor, but at this time, this program does not include insurance. On the other hand, CONAMYPE uses over 11 service points located throughout the country, particularly through its Centers to Develop Micro and Small Entrepreneurs (CDMYPES), they offer business advice, training, technical assistance, guidance on the use of Information and Communication Technology (ICT) to micro-entrepreneurs.

In this context, it is clear that all the potential microinsurance for MYPE is not being used to its full because it is not included in the programs offered by CONAMYPE. Such a situation does not help the State, because of an absence of risk management mechanisms, MYPEs are more vulnerable and they may disappear if a disaster strikes and affects the capital MYPEs depend on, or due to other causes. Thus, the investment made by the state becomes inefficient if it is not accompanied by the right strategy for microinsurance y small entrepreneurs risk management.

Concerning public housing, it is emphasized that mortgage insurance operations operates when there is still one credit in force to pay for housing; however, once the credit is paid the property is no longer insured. In this case, the absence of insurance at the time of a casualty may lead to losing a home. This will lead to a serious impact on the lives of beneficiaries of social housing, and on the other hand, casting doubt on the efficiency and effectiveness of resources invested by the State for the construction and promotion of this type of housing.

Lack of trust and communication between the public and private sector. During our visit, a lack of confidence and confrontation between public and private sector became evident, particularly among some government sectors and associations such as ANEP and ASES. Although this may be explained by current political conditions of the country, its polarization and the present juncture (period closing a mandate and upcoming elections) this is exacerbated in the insurance industry because of the situation generated by the enforcement of FONAT. An adverse environment was created, it did not benefit microinsurance, since both debates (traffic accidents and access to insurance for the poor), have similar grounds because of the social impact they imply and the pressing need to assume topics from the perspective of public-private partnerships.

4.1.3. Strategies

In order to overcome these constraints, it is imperative to embrace from now on the topics of risk management and insurance as an essential part of the financial inclusion initiative that has been consolidating in recent years.

In this context, we need to link the debate to the insurance industry, since this is the sector experienced on risk management. Therefore, the regulatory framework is suitable for public-private partnerships, for example, through the recent Public private partnership law. The role public-private partnerships have been playing in the expansion of microinsurance is very important internationally. This is the best mechanism to cover risks of major impact on the country such as climate risk, catastrophes, health, risks to which microinsurance and small entrepreneurs are exposed, and risks the extreme poverty population is exposed. Such alliances favor the state, because they facilitate compliance with national, international and regional obligations. They also favor insurers, since they gain experience on this market, offer a product of social impact and create the platform for offering other insurance products to a segment of the population that in the near future may become a profitable niche.

State participation may vary in every alliance, for example, it may initially subsidize premiums for a product that would otherwise be hardly profitable, as they do in Colombia, where the government subsidizes the life insurance premium offered to beneficiaries of the Conditional Cash Transfer Program called *Juntos*; and also the agricultural catastrophe insurance, subsidized by the Ministry of Agriculture in Peru. This participation may be effected by including insurance in the process of implementing policies to access financial services so that under such processes the private sector may provide insurance to the beneficiaries of such policies without subsidizing the product, but promoting it. In this sense, the public support consists of opening a channel to insurance. An example of this is the Chinese government involvement in the design of agricultural insurance products. Similarly, the state can participate in public-private partnerships, by making government entities available channels to distribute insurance products, similar to the use of municipalities to offer certain insurance products in Peru. Protecta insurance company, is one of these cases, it created an agreement with municipalities of Lima to offer life insurance to local taxpayers.

In the particular case of El Salvador, it is important and urgent for the State to organize the offer of these products directly or indirectly through its promotion within national programs that have an impact on the microinsurance target population. In this regard, there are several methods.

First, include insurance in conditional transfer programs, as in the case of the solidarity networks (Redes Solidarias), whose framework may embrace the offer of life insurance products to the beneficiaries of such programs as they did in Colombia.

Second, integrate insurance as part of financial services that have become accessible, as for example, the case of CRECES Mipyme. They would offer microinsurance to micro and small business owners and associative groups. In this regard, CRECES has specific programs for women, which make use of various platforms created for women in CONAMYPE. This would be an interesting platform to offer gender microinsurance products. Insurance competencies may be also granted as part of the financial advisory provided with the CRECES program. Likewise, they may use CDMYPE and other agencies and CONAMYPE branches to provide financial education to entrepreneurs including the importance of risk management to cover microenterprise's risks and for them to know where to hire insurance products that make risk management more sustainable.

Third, we should analyze the possibility of a mandatory insurance in order to guarantee efficiency of public investment to design and allocate resources from the public budget to promote micro entrepreneurs and construction of low-income housing through FONAVIPO in El Salvador. Following this dynamic, it would make sense to implement mandatory insurance for low-income housing, in cases where the mortgage has already been paid.

Fourth, support the idea that risk management through insurance is an interesting tool for tackling climate change, particularly in the framework of the MARN National Climate Change Strategy. In order to emphasize this process it is vital to link not only insurers but also reinsurance companies, and programs supported by development agencies. In this regard, we should mention the project supported by the German Development Agency, GIZ, in Peru to cover the losses caused by climate change. Equally noteworthy is the natural disaster insurance program offered in Haiti by AIC (Fonkoze) - reinsured by Swiss Re. This was made possible thanks to the support of the Microinsurance Catastrophe Risk Organization (MiCRO).

Fourth, considering that BANDESAL manages the guarantee fund for agriculture, which could fund the supply of an insurance to guarantee savings in agriculture and insurance for farms for more impact. This would require the dynamism of a public-private partnership, with the support of specialized international organizations to manage catastrophic risks that may affect the agricultural sector.

4.2. SUPERVISION AND REGULATION

4.2.1. Constraints

Throughout the analysis of the microinsurance value chain in El Salvador, we identified certain supervision and regulation constraints that increase costs, lengthen processes, reduce simplicity, and one way or the other do not promote innovation. In most cases, these constraints are conceived as a way to protect consumers, either by prescribing a strict code of conduct in the market, or requirements to ensure that the policies offered do not infringe their interests, or to check in writing that a free, preceding and informed consent was granted. This tension between mechanisms to promote simplicity, speed, innovation and mechanisms intended to protect consumers from insurance is not a peculiarity of El Salvador. Actually, it is the most common phenomenon that has surrounded the debate of supervision and regulation of microinsurances since they started. The challenge of the supervisor and regulator is precisely to ensure flexibility, simplicity, speed, and innovation features of microinsurance value chains, while protecting the new microinsurance consumer. This is characterized by his lack of financial capacity, his inexperience and lack of access to legal resources of formal economy (Camargo, Protection of the Microinsurance Consumer: Confronting the Impact of Poverty on Contractual Relationships, 2012) (Zimmerman, Magnoni, & Camargo, 2013) (See Figure 15).

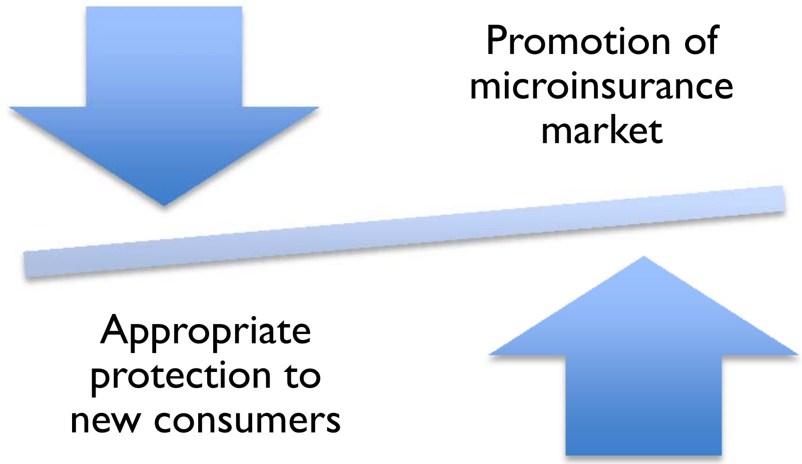


Figure 15. The challenge of microinsurance regulation and control
Source: (Camargo & Montoya, Microinsurance s: Remarkable experiences in Latin America, 2011)

It is under these terms that the challenge is to promote, facilitate and strengthen a "responsible" microinsurance market.

In general, terms, we believe that at present supervision and regulation applicable to microinsurances in El Salvador (i) does not impose "insurmountable" constraints that prevent development of microinsurances and on the other hand, (ii) protects microinsurance consumer satisfactorily.

However, some barriers that are currently being removed would expedite the development and growth of the microinsurance market in El Salvador (current constraints). There are also some aspects that may become barriers (potential constraints) as the microinsurance market evolves in the country.

In order to understand this division between current and potential constraints we must understand that microinsurance markets may be classified as follows:

First, the study of microinsurances overview in LAC classified microinsurance markets into four LAC categories (see Table 3) (McCord, Tatin - Jaleran, & Ingram, 2012). According to this classification, this study classified microinsurance markets of Guatemala, Honduras, Nicaragua and El Salvador, as credit - based markets with a strong influence from MFI. In the case of Panama and Costa Rica, the study found that they are border microinsurance markets; particularly, the study indicated no evidence was found of microinsurance products in Costa Rica (McCord, Tatin - Jaleran, & Ingram, 2012).

Second, during the Forum of Financial Responsibility dedicated to insurance in emerging markets held in Berlin on 24 and 25 June 2013, Craig Churchill, team leader of Microinsurance Innovation Facility ILO classified microinsurance markets into four according to their stage of development (see Table 13).

Classification Panorama of ALC Microinsurances				ILO Classification			
Market at the border	**Credit based market**	**Mass market**	**Hybrid market**	**Emerging market**	**Growing market**	**Diversified market**	**Competitive market**
Microinsurance development is in the early stages	Microinsurance is promoted mainly by MFI	Market with a robust and growing middle class where there is no clear demarcation between traditional insurance and microinsurance	MFI role is important, and where middle class is growing	Informal insurance's offer is high. MFI offer credit life insurance internally, insurance companies begin to offer basic products	Increasing population covered by basic products. Use of various distribution channels, particularly MFI and cooperatives	Offer of voluntary products, distributed through innovative channels	Profitable and competitive market. There are several options in the market

Table 13. Classification of microinsurance markets
(McCord, Tatin-Jaleran, & Ingram, 2012) Presentation Craig Churchill en el IV Responsible Finance Forum IV, Berlin 2013.

Depending on the stage of development of microinsurance market, it should implement some regulatory and supervisory measures (see Figure16)

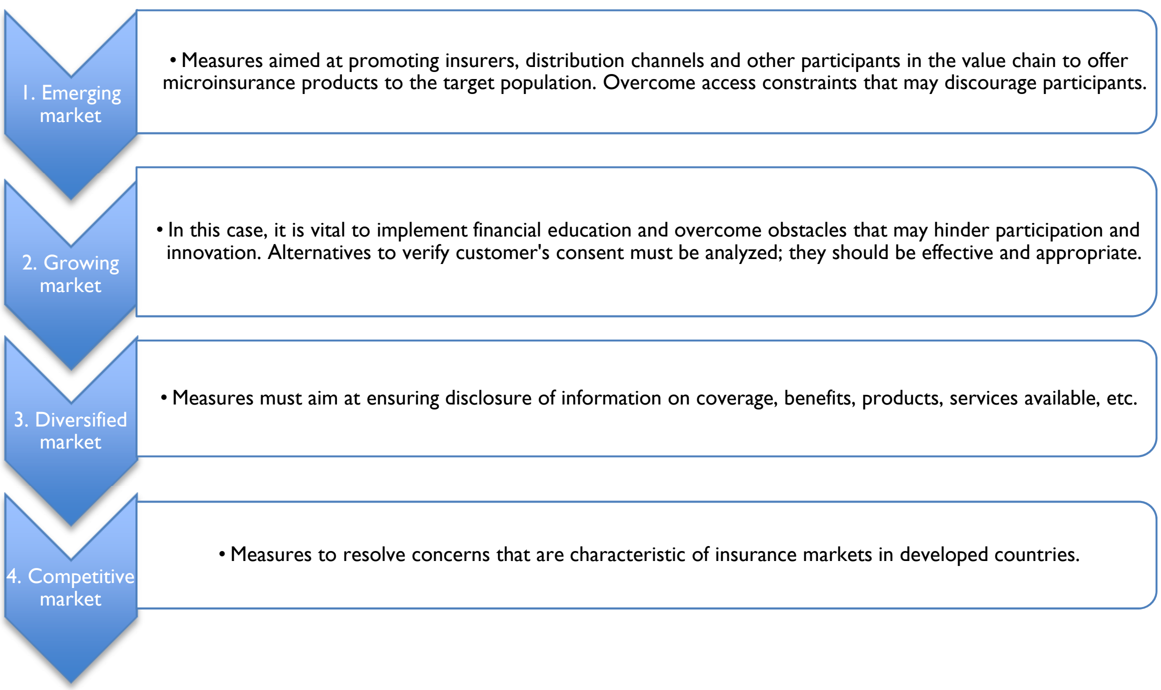


Figure 16. Regulation according to microinsurance market classification
Craig Churchill Presentation at the IV Responsible Finance Forum IV, Berlin 2013

Thus, at each stage the market is required to evolve to the next stage.

Microinsurance market is just emerging in El Salvador and it is still based on products and channels linked to credits. Therefore, its current need is to promote and simplify microinsurance market, both supply and demand. Particularly, it requires insurers to be encouraged to offer microinsurance products and innovate channels; and that they promote the use of insurance as a risk management tool in the microinsurance target population.

Current constraints. We found that all insurance institutions interviewed said that to some extent the cost of incursion and innovation (financial and image) is higher than the potential benefits of offering such products because of the following **constraints** linked with supervision and regulation in El Salvador:

Constraints to mass marketing channels: El Salvador poses no constraints for insurance activity. Even though there is informal insurance in the country, its proportion is not excessive. We verified that in cases where such initiatives seek to formalize, prudential requirements have prevented their becoming insurance companies. However, we did find some constraints to operate as a mass marketer. Many of the participants in the value chain consider that marketer registration takes a long time and some requirements turn out to be prohibitive for certain channels, which otherwise could potentiate distribution of microinsurance products. Thus, channels that can hardly be considered mass merchandisers are currently used through group agreements, in which the channel operates as a policyholder. In this context, it is evident that the barrier to access mass marketing channels are generating an excessive use of group insurance contracts, a mentioned above, this is a concern for the DC, since this is one of the most common insurance claims.

Constraints to product approval and registry: The time it takes to register products and to get their approval is currently operating as a disincentive to offer insurance products intended for the microinsurance target population. This delay makes the process more "costly" and makes it more difficult for insurance companies to consider offering microinsurance products a profitable business. We observed that even though mass marketing in the country is allowed, there is a no typology of "massive insurance." Thus, Article 51 of the LSS states than using mass marketing channels is possible if "*the customer voluntarily contracts the service and if the policies are suitable for mass marketing*." However, there is no provision explaining which policies are "best" for mass marketing. In El Salvador, the operator is allowed to act, but the purpose of the product he may distribute is not defined. This situation resulted in an uncertain definition of a regime for massive and conventional insurance, which would make registration and approval more flexible for mass insurance.

Constraints in subscription of insurance contract: We found that there are certain elements linked to the signing of the insurance contract that makes the process more expensive, discouraging the supply of products to the microinsurance target population. In this case, we first identified the tools used to verify consent of the contract parties (original signature); the tools used to ensure that the consumer is informed, understands and comprehends the terms of the contract and applicable processes (written processing, mainly through the insurance policy), and the prerequisite for underwriting insurance, such as medical examinations or other required and prior verifications. On the first point, there is no standard allowing digital or electronic signature in El Salvador; this would expedite underwriting insurance contracts. Regarding the second point, the required content of the policy and its delivery, involving the use of long documents that are not necessarily read by the consumer but which generate excessive costs that discourages insurers. The disincentive is also generated because failing to comply with these two elements because of lack of access, or lack of delivery of a comprehensive document leads to penalties. Under these conditions, incursion in microinsurance market implies an excessive reputational risk. In practice, SSF has accepted the streamlining and responsible innovation of policies, but the private sector is emphatically told of the need to have clear rules, which would also facilitate the SSF work. In this context, insurance companies have chosen the constant use of group insurance, which among other things allows issuance of an individual certificate of insurance and does not require pre -risk verification or medical examination.

Potential constraints. This study found some aspects that may constitute **potential constraints** as microinsurance market evolves. These elements might limit to some extent the efficiency and competitiveness of microinsurance markets in future stages of development. Considering that, these issues do not constitute market faults today, or if they are, they do not require urgent attention, so it is not advisable to address them immediately, as they may disappear as market evolves.

These constraints are primarily related to certain aspects of market behavior regulation, which may not be adequate in the future. Such as the inexact training requirements for mass marketing channels, lack of clarity about how to comply with the reporting obligation by marketing channels and the marketer's responsibility of handling information, policies and communications.

On the other hand, we found an absence of statistical databases, which may be supplied by the ratio of reinsurance premiums policies and /or databases from other countries for similar risks. In this case, we need to consolidate and it is therefore important to create a microinsurance committee in ASES or SSF in order to collect accurate information.

Clarity concerning the documents to be required to submit a claim, the form of notice of acceptance or rejection of the claim, and the date when the 30 day-period to demand payment starts. Similarly, for microinsurance having a term of 30 days for payment of compensation is not appropriate.

Clarity about the possibility of resolving disputes through alternative dispute mechanisms, taking into account Article 17 of the Consumer Protection Law.

4.2.2. Strategies

Insurance markets evolve gradually from their current profitable segment to the next more profitable market segment, which means that "*unless they receive some incentive or are forced to do so, they will jump all alone on the next segment of more profitable market to offer products to the poorest*" (Access to Insurance Initiative, 2010). Considering that in most developing countries insurance markets are targeted at upper and upper middle classes, in some cases, it may be necessary to accelerate the process of evolution to facilitate market expansion and insurance may reach the "poor." In this perspective, adopting measures to create a regulatory and marketing environment plays an important role to expedite this process. Other measures will be necessary where microinsurance market has already evolved and begin to outline certain market failures; however, we insist that in the current stage of microinsurance market of El Salvador, the focus should be on promotion and facilitation.

I. Current constraints: In the case at hand, the need is to encourage insurers and intermediaries to make inroads into microinsurance, by offer and distribution of microinsurances. At international level, this need has been covered by various strategies (i) removal of constraints to access, (ii) removal of constraints to registration, (iii) removing subscription constraints, (iv) the provision of direct incentives, (v) creation of legal obligations of providers to offer microinsurance, (vi) promotion of microinsurance awareness.

(i) Removal of constraints to access: the Philippines decided to formalize informal insurance institutions, they were forced to create alliances with insurance companies or become insurance cooperatives or MBA. Similarly, in the Philippines they established lower capital requirements for microinsurers. In Brazil, "microinsurer" and "microinsurance broker" agencies must meet fewer requirements than conventional insurers and insurance brokers to offer microinsurance products. Peru is seeking to promote microinsurance by allowing microinsurance products to be distributed through "marketing channels" at the time when only the banks could sell mass insurance[56]. In Mexico, they chose to recognize individual marketing channels for microinsurances, whose requirements are less prohibitive than for traditional insurance. In India, the requirements of agents distributing microinsurance products are flexible since 2005. Pakistan recently created the figure of "microinsurance agents."

[56] Peru introduced mass marketing in 2010, and in 2007 it introduced the possibility to market microinsurance through marketing channels.

(ii) Removal of constraints to registration: Pakistan recently started a process of "file and use" for microinsurance products, which is characterized by its simplicity and speed. In this case, insurers submitted the file of the product to SEC, 30 days prior to launching date of the product. This product file will list product details, model of the policy, product brochures or other marketing materials, according to the distribution channel, details of the sales process, a summary of the claims process and an electronic copy of any written material or other proposal for mass communication, or communication with the consumer or potential consumer. Similarly, Ghana adopted a procedure Product Approval "file and use." Both India and the Philippines have also adopted a rapid microinsurance product registration and in both cases the ability to offer combined products (life and property).

(iii) Removing subscription constraints. Peru, Brazil, Nicaragua, Pakistan and Ghana also decided to simplify the policy. Ghana for example, has instituted the use of a document entitled "Summary of policy," which should be brief and contain basic information on the product, the contract and applicable processes. However, this complete policy, which must be delivered to the consumer, is also attached. Peru, Pakistan and Ghana contemplate microinsurance policies with no exclusions or they should be minimal and necessary. It has been proven in practice that such inscriptions generate complications, particularly because they generate legal uncertainty regarding what is a minimal exclusion and when are they actually necessary. In such terms, the supervisor may be arbitrary to determine them, and likewise, cannot have elements to qualify exclusion as necessary and minimal. In the case of Pakistan, exclusions linked with pre -existing conditions are not allowed, unless specifically approved by the supervisor.

(iv) Provision of direct incentives. Some countries have adopted measures whose specific purpose is to promote microinsurance supply and demand. For example, Brazil is currently pursuing a draft law which includes the following tax incentives: the consolidated microinsurance tax called "special microinsurance operations tax regime," deduction of income tax base for companies, when these finance the premiums of microinsurance products for employees (this benefit would be temporary - valid until 2017). The deduction of the income tax base for individuals who pay domestic microinsurance for workers (the deduction can only be up to 10% of the minimum wage). Another incentive tool that comes hand-in-hand with the direct interest of the Government to improve the supply of certain products to certain segment of the population, for example, by means of full, partial, permanent or temporary premium subsidy for certain insurance products. Colombia did this for life product offered by *La Equidad* and distributed by the agricultural Bank, or for transfer program beneficiaries of the Department of Social Prosperity. Similarly, catastrophic agricultural insurance distributed by Positive regional governments in Peru, the product is 100 % subsidized. In addition, there are countries where the supervisor created a logo, that is stamped in all microinsurance products. This is the case of the Philippines and Ghana.

(v) Similarly, some countries have chosen to impose legal obligations directly on insurance entities for them to offer microinsurance products. This is the case of India, where the provision of rural and social insurance is promoted by commercial insurance companies; they segregate a specific share of their operations to offer such insurance.

(vi) Promoting microinsurance awareness for both suppliers and applicants has been essential to encourage providers to offer microinsurance products. The Philippines are noteworthy for creating a microinsurance strategy, which has a website, a logo, offering events on microinsurance, etc. Similarly, it is vital to include microinsurance in financial inclusion initiatives; this is the case of Peru.

Considering these international strategies, we present three alternatives that, should they be implemented, will make the regulatory and control environment more favorable for microinsurance in El Salvador[57].

[57] Some international strategies mentioned here were also proposed for public policies.

Nevertheless, before presenting them, it is necessary to create a responsible microinsurance environment where this sector is encouraged by regulation and supervision measures, and an favorable environment for self-regulation of the private sector environment, for example, to define standardized clauses, adoption of codes of conduct, appropriate dispute resolution, insured advocacy mechanisms, etc.

Alternative 1. Deepen mass marketing

Description. In this case, the purpose is to implement applicable changes to mass marketing that would benefit microinsurance penetration indirectly and then create a derogation regime for bulk insurance products. This will provide incentives to register such products authorizing the use of simplified policies, where requirements are reduced for mass marketing channels, so that others that may have impact on the microinsurance market can participate as marketing channels.

What is required to adopt this alternative? In order to implement this alternative, they need to adopt a definition of mass marketing to demarcate what type of products may be marketed as such. The definition used need to consider certain experiences in Latin America:

In Peru, massive insurance are defined as those "*developed in simple language that may be easily understood by management and contracting, policyholders and beneficiaries that do not require special conditions regarding insurable life and goods. Simple acceptance of the insured is enough for the consent of the insurance and the contract is subject to the minimum insurance conditions required to be verified prior to the contract due to the nature of the coverage. The form and terms must be set for them to be verified, the validity of coverage is subject to compliance with such conditions*[58]."

In Guatemala, Article 89 of the Law on Insurance Activity stated that "insurance to be sold in bulk must comply with the following characteristics: a) no technically complex policies and but a policy easy to understand and use by the insured, and, b) they are susceptible to standardization." In this respect, Article 5 of the Rules of Mass Marketing (Resolution JM -1 2011), provides more detailed characteristics of such products, emphasizing the simple wording and include certain aspects. The the policies are the same for all people for every risk protected, and the insured must be an individual.

In Colombia, Law 389/97 regulated the *bancaseguros*, indicating that only the insurance products that met the characteristics of universality, simplicity, standardization could be distributed through these channels, and they were likely to be sold massively because they waived specific requirements.

In Honduras, Article 4 of the *Circular CNBS 054 /2003* issued the "*Regulations to other forms of insurance marketing,* " it said that insurance which may be sold under this mechanism should meet the following requirements: a) The policies of insurance lines should be easy to understand and manage by individuals; b) formats, general and specific conditions of the policies for authorized branches of insurance must be the same for all individuals, according to the interest being protected; therefore, policyholders are not required specific conditions or differential treatment; c) insurance must be offered in terms that only outright acceptance of the insured suffice for consent; d) insurance policies must not contain insurance conditions to be verified at the time of subscription. When contracting insurance purchased through online stores, they may not require prior conditions to begin policy coverage nor for its subsistence; e) The conditions of the policy may not be modified unilaterally by the insurance institution f) The conditions of coverage must not differ from those that are promoted by the insurer, and, g) Insurance must be individual."

Considering the definitions above, we suggest adoption of a definition similar to the one in effect in Peru, Colombia and Honduras, where mass insurance should have the following features: (i) simple product, (ii)

[58] Resolution 2996/2010 was issued by the Peruvian Superintendence of Banking and Insurance.

standardized technical aspects and policy, (iii) universal, so that it does not require special conditions relating to life and insurable objects, (iv) do not require verifications, (v) insurance policies must be individual.

General Conditions for a derogation regime of product registration. Generally there are four mechanisms to register products, "file for approval," after product registry it requires its approval, "file and use," is registered at SSF and no approval is required for use, "file for access," means that the product is registered with SSF and acceptance is required for eligibility, "file before use" product is recorded and after a short term, and should they agree, they can start using it. For the particular case of El Salvador, now a "file and approval" method is in force. In this context, we propose its implementation for massive "file and use"[59] insurance procedure. In this case, we suggest that institutions file the policy model at least 30 business days prior to use. The file shall be accompanied by a simplified policy; model of the card accompanying the policy, a list of mass insurance requirements indicating that the product to be registered complies with all requirements, and a technical annotation. SSF will have about 15 days from the filing date, to verify compliance with the requirements to be prescribed for recording mass insurance and if they are not met, suggest any necessary amendment.[60] Such term is short, and it may even be reduced if they include a "checklist," which will be considered by SSF to rate adequacy of the policy model. The checklist may have three components: first, a list of requirements to qualify such product as a mass product; second, one related to the clauses contents of the simplified policy and ID card, and third, the technical note. Concerning the second component, they will promote the use of standardized, easily understood terms for clauses that are applicable for all products (for more information, see section policy simplification). Regarding the third point, considering that they are technically standardized products, and therefore do not take into account the particular conditions of the policy, analysis of the technical note should be even simpler. For example, Ghana considered rating microinsurance products based on the risk profile of the policyholder or insured's community, not requiring evaluation of the risk profile of the policyholder /insured. We suggest SSF to discuss in detail the possibility of excluding technical note analysis in cases of massive insurance.

Thus, if the product is really simple, standardized and universal, its registration must be equally simple, standardized, universal and expedited.

Streamlined underwriting processes. The key to streamline will focus on the adoption of the simplified policy, which will comply with the requirements prescribed for the traditional policy in El Salvador, and the vast majority of background requirements. Preferably, this policy will be a document no longer than one page on both sides. This streamlining will be based on the idea that if the product cannot be described in a simple manner in compliance with the requirements for simplified policy, the product is not simple, and therefore should not be subject to mass marketing.

[59] Scholars have considered the application of "file for approval" processes as likely to generate deviation of resources and the main controlling obligations, making insurers to depend on their supervisors to design their policies adequately. This issue was discussed in various interviews made during the visit.

[60] It is vital for insurers to assume that, in order to guarantee expedite and simple processes, they are to comply with the terms proposed and any requirements that may be prescribed for such products in the future.

Contents	Format
✓ Place and date of issuance ✓ Policyholders names and addresses ✓ Selection of the person or thing insured ✓ The nature of the contract the parties undersign ✓ Details of the risks covered and excluded risks ✓ Details of the good or service contracted ✓ The time when the coverage begins and term ✓ The rights and obligations of the parties, terms to carry them out and penalties for default ✓ Right of withdrawal ✓ Insurable amount ✓ Premium, grace period, and payment method. It should state the procedures for cases of payment due on a holiday. ✓ Term, procedures and documents necessary to present a claim to the insurer ✓ Term for the insurer's payment ✓ Procedures for the consumer to present claims to the insurer ✓ Options to submit complaints to third parties and resolve conflicts ✓ Forms of termination ✓ For personal insurance, the insured's date of birth, names of beneficiaries or way to appoint them. ✓ Digital signature of the insurer's representative	✓ It must be written in Spanish ✓ The types and font sizes used must be easy to read for users, i.e. characters are to be easy to read at plain sight, letter size may not be smaller than 10 cpi ✓ It is to be written in clear terms ✓ It should not contain references to texts or documents that have not been previously delivered to the consumer to or simultaneously with the contract. ✓ There should not be any waivers of rights granted to the consumer by law ✓ The rights of the consumer and those of supplier must be grouped together in the contract, as well as the obligations of both, and all specifications related to cost ✓ No clause contained should be considered abusive pursuant to Article 17 of the Consumer Protection Law

Table 14. Minimum requirements for a simplified policy

There are several clauses that may be standardized, and for that process, it is vital that these are the result of a discussion among the insurance industry, SSF, DC, and reinsurers, because the latter often prepare the minimum clauses for the products they reinsure. These clauses may include template of the clause in force, clause on rights and obligations of the parties, the right of withdrawal, deadlines and procedures for claims. Concerning documents submitted for any claim; self-regulation also has significant potential to be determined. A clause covers the handling of internal and external complaints. The causes for termination and assignment of a beneficiary if it has not been specified. There is a partial obstacle for dispute resolution clauses, as mentioned above; however, it is imperative to standardize a dispute resolution clause where they can include alternative means of dispute resolution. Advancement in the adoption of digital signature law and other mechanisms that streamline consent and signature of the contract are important to ease the implementation of the simplified policy.

In addition to the policy, we suggest that the insurer provide a membership card which front and back should include basic information: name of the insured, name and logo of the insurer, policy number, effective date, type of insurance and coverage described and briefly explained, phone or website for information on claim processes, consumer services hot-line, insured's address and website (See example used in Tanzania).

Expedite and reduced registration requirements for mass merchandisers. Second, a change in the requirements of mass merchandisers for entities with potential to be channels for the target population, to participate as mass merchandisers. In this case, they will not be required to present a financial statement with the external auditor of the last two years, or verifying the credit quality A or B in the last two years. On this point, it is important to promote communication to identify other conditions that constitute a barrier in this context. To reduce these constraints without affecting the consumer, we suggest emphasizing the insurer's due diligence in choosing its channel, it must be clear that the insurer is liable for all damages caused by their channel. This point was reiterated by IAIS (IAIS, regulatory and supervisory aspects of microinsurance, 2007) (IAIS Application paper on regulation and supervision supporting inclusive insurance markets, 2012). Similarly, it should be clear that both payments and communications made to channel are deemed to have been made to the insurer. In terms of training, it is estimated that the requirements are sufficient, and should there be anything missing, it should become evident that microinsurance market is evolving. They could also explore the possibility of reducing marketer requirements in cases where such intermediary is part of the value chain, such an element would have a leverage effect on the role of the professional insurance intermediary and solve problems of information asymmetry and design a product that is common in both mass insurance and microinsurance.

Pros and cons of this alternative: The most important benefit of this alternative is that it promotes access to insurance in all segments of the population, not just the microinsurance target population. This element has been the cause of debate on financial inclusion and access to insurance. However, the downside would be that products sold in mass do not penetrate the microinsurance target population. The success of a product registration process as proposed requires a solid corporate governance standards, which was adopted recently in El Salvador to streamline the proper implementation of the proposal. Similarly, the success of the three strategies also depends on self-regulation of the insurance industry, a point that has certain weaknesses in El Salvador. On the other hand, a constant communication between the insurance industry, SSF and BCR is required.

Alternative II. Adoption of a particular regime for microinsurance

In this case, they will adopt a special regime applicable only to microinsurance.

What is required to adopt this alternative? To adopt such regime it is necessary to create a definition of microinsurance that would clearly define what products would be part of the scheme. The importance of this definition is to prevent market distortions that may lead to regulatory arbitration.

In this regard, some microinsurance definitions adopted elsewhere have been evoked. Such definitions come in two types, quantitative and qualitative. The first is characterized by implementing maximum amounts for premium and /or the amount insured, and the second one emphasizes the target population of insurance products, which is usually left open in terms of "low-income population." However, in Brazil, criteria such as the minimum wage, demographic, geographic, social, economic, behavior, are taken into account to characterize this population. Similarly, there are cases where a qualitative definition is adopted, and then they establish some quantitative criteria, or product characteristics are included in order to define more precisely the object of regulation. Mexico is an example of this. Ghana preferred to adopt a more operational definition, simply concluding that microinsurance contract is an insurance contract classified as microinsurance by the insurer. Now the insurer that designs and develops an insurance contract has the responsibility to determine, based on criteria prescribed, whether its product is microinsurance or not. Microinsurance rules amended in February 2013 by the National Insurance Commission of Ghana, stated that microinsurance contracts must be designed and developed with the intention of considering the needs of, and to be distributed and sold to: (i) low-income population in general, specifically certain groups of low-income population, and low-income population of a particular area; (ii) applicable premiums must be affordable for low-income people for whom such designed or developed product is intended (iii) the insurance contract must be accessible for people with low-income for whom such design or development was intended.

El Salvador should adopt a microinsurances definition similar to that of Ghana, which include as product features the ones previously stated herein in the definition of massive insurance.

Special features of the derogation regime. This regime would consist of the three strategies for massive insurance previously evoked, but in this case, specifically referred to microinsurance. First, they should adopt a special product registration process expressly for microinsurance. Hence, the insurer must submit a simplified policy; model of member card accompanying the policy, a document that will verify that the product complies with the criteria in the definition of microinsurance contract of Ghana and the aforementioned features of massive insurance, and technical notes. We suggest an analysis of the possibility easier pilot registration of microinsurance products.

Second, implementation of a regime of simplified underwriting processes on the same terms previously stated and this would focus on the possibility that insurers use infogrames in designing their policies. This may standardize clauses that make use of infogrames.

Third, we propose the creation of the "microinsurance marketer" figure, which will have more flexible requirements, a special training regimen, and it will be clear that the insurer assumes the damages caused by such channel. These were the three pillars or basis to support the figure of microinsurance traders, agents or specialized brokers in countries like Peru, Mexico, India, and Brazil.

Pros and cons of this alternative: It favors offering of insurance products to a specific segment of the population and other segments of the population may also benefit from these products. Access to insurance is also promoted. As for massive insurance, the success of these strategies depend heavily on the adoption of good practices by insurance companies, self- regulation of the sector, and the constant communication between insurance industry, SSF and BCR.

Alternative III. Deepening of mass marketing and microinsurance

As proposed in Alternative I, deepening mass marketing may be considered, and in that context, create a sub scheme for microinsurance. In that case, microinsurance would use the benefits of deepening massive insurance, but also specifically promote insurance for the poor. The important aspect of this alternative is that it promotes registration of products such as microinsurance. Additional incentives should be given to mass insurance products. For example, a faster registration process, or the possibility of extending reduction of requirements for microinsurance marketer as compared to the massive ones. The evidence in some countries that have both regimes, mass insurance and microinsurance, show that the latter requires shorter processing times and claims, or conditions to simplify the strictest policy, and little or no use of exclusions. Some insurance companies would rather register their products as mass insurance than as microinsurance. This is to some extent the case of Peru today.

Besides the above strategies, we suggest the possibility of repealing section 1415 of the Commerce Code because it is a foremost obstacle in the fire insurance claim and secondly it is important to establish clear criteria for group insurance, as noted in the text of the document that was recently done in Brazil.

II. Potential constraints: The vast majority of these constraints have been addressed at the international level particularly by prescribing codes of transversal market conduct to all the microinsurance value chain and by setting a solid regime of consumer protection. Hence, the global strategies of microinsurance promoted by the supervisor to advance on microinsurance agenda need to be noted, such as the Philippines Insurance Commission, SBS in Peru, IRDA in India, National Insurance Commission in Ghana, Pakistan or the SEC (microinsurance regulations of these countries is provided in Annexes III and IV). Similarly, it some have consolidated microinsurance information through microinsurance committees, such is the case of Colombia through FASECOLDA. Recently, APESEG the insurance companies' federation, is also developing a computer system for microinsurance products. In more advanced markets, they have prescribed microinsurance rates applicable to microinsurances and mechanisms for resolving conflicts concerning specific performance of microinsurances, as in the Philippines (Attached in Annex V).

4.3. Offer

4.3.1. Suppliers

4.3.1.1. Constraints

Lack of innovation by some insurers. Even though it is evident that some strategies are adding value to debt insurance, they are designing simple but valuable products for the customer, or they are seeking to make more tangible the supply of certain products through discount cards or "scrape and win" or are using innovative channels such as supermarkets, drugstores, etc., these are still the exception. Much of the innovation in the sector has been explained by the saturation of bancaseguros, and the lack of direct access to a financial institution, which is not part of the guild. It is in these "no comfort" conditions that such innovation was implemented. An important aspect is that some insurers as Mapfre La Centro Americana feature massive innovation to the global insurance experience that is replicated in El Salvador and it may be enhanced further. Similarly, the recent purchase of Asesuisa S.A. by Sura from Colombia was an event that may enhance the incursion of this entity into microinsurances using Sura microinsurances experience in Colombia.

During the visit, it became obvious that many insurers are focusing on channels they do not have losing sight of that they do have, and that may increase interest on microinsurance, since it is accessible for the target population. In this line of findings, we observed that a large number of entities have links with groups such as groups of drivers, bikers, associations of agricultural producers, financial institutions whose scope is the target population (credit unions, cooperatives, workers banks, etc.), products distributors for small stores, beer or soft drink bottlers, gas stations, distributors of agricultural products, etc.

As previously noted, SSF has shown to be open to innovation and change, to adopting novel products and channels, insurance companies must see the benefits of having a supervisor open to discussion and financial inclusion.

Lack of cohesion between insurers generates weak self-regulation. Fifteen of the 21 insurance companies in El Salvador are members of ASES. The purpose of ACES is to coordinate efforts among insurers, represent their interests nationwide and manage strategies. ASES also has a technical insurance school, which is essential to develop insurance skills, first in relation to the participation of financial education programs specialized in insurance, and second to build capacity in the sector. The impact of building capacity is significant, given that there are very few actuaries in El Salvador and the country has no academic program that includes insurance. In these terms, ASES has enormous potential to develop a reliable microinsurance market in the country, and it may get positive results as they had in other countries. Such is the case of Colombia Fasecolda, whose association has a microinsurance committee, operating as an interesting tool for self-regulation. Fasecolda is also the leader on financial education initiatives specialized in insurance. APESEG in Peru, an organization that also has a microinsurance committee organized in 2008, constantly cover microinsurance topics, and is currently building a microinsurance database, IDB /MIF and FIDES started this data collection. CNSeg in Brazil is a guild that has greatly advanced the agenda of microinsurances in the country. However, the lack of cohesion between insurers and members and non-members of ASES is thought to be a major obstacle for ASES to achieve this potential.

1. Some entities do not participate in ASES; many of them claimed they are not interested in joining because they think that ASES is aimed at protecting the interests of insurance companies that belong to a specific cluster. However, companies like Mapfre La Centro Americana, which does not belong to any financial conglomerate takes active part in ASES. Furthermore, some said that such participation does not offer any added value.

2. ASES members said that there are few internal issues on which they all agree, including the issue of FONAT /SOAT. In relation to self-regulation, some said that the regulation might be restrictive in what ASES can or cannot do. Two interesting precedents concerning microinsurances were found: in the first place, all progress made to standardize policies on what would have been the SOAT. However, some insurance companies stated that such settlement was very difficult and many organizations disagreed. This may be explained by two characteristic features of the insurance market in El Salvador 1. the fact that previously all policies and rates were standardized, which would explain rejection to such initiatives; and 2. for commercial reasons they prefer to avoid disclosure. In these cases progress may be made in the standardization of microinsurances clauses which are generally too complex to understand (such as declaration of risk), a fact which does not affect the market competitiveness. In the second place, a few years ago ASES sought to create an Insured Defense using the experience of Peru, which was called "Office of policyholder protection." However, there was no cohesion by insurers, even though SSF saw this as a positive step forward. In this context, the project was forgotten.

Under these circumstances, there is a favorable environment for promotion and self-regulation of microinsurance by the industry. Self-regulation in the process of promoting responsible microinsurance markets is clear (IFC, 2013), because it enables identification of unfair and confusing terms in clauses, promotes the adoption of codes of conduct, standardized clauses, monitoring mechanisms of sector growth through the creation of databases, or creating appropriate mechanisms for conflict resolution, etc. Even though today's atmosphere is not favorable for self-regulation in El Salvador, microinsurance market development may be used as an element of cohesion. Because one of the main findings of the study was that, all insurers see microinsurance as a tool of great social impact.

Unawareness of the target population needs. One issue consistently mentioned was that the target population is not familiar with microinsurance. Overlooking this may lead to having i. product designs with no value because they fail to meet the actual needs of this population; ii. wrong identification of channels; these should be chosen based on trust and public access, and to choose a specific channel they must know the target population; and iii, lack of information to define actuarial basis for this population and high need insurance for themselves such as casualty insurance.

4.3.1.2. Strategies

- *Lack of innovation by some insurers.*

Product. It is essential to take advantage of the fact that insurance is becoming a mechanism of loyalty and competitiveness for companies. Their impact must be measured by monitoring microinsurances and carrying separate records. For products to have value, they should start implementing the *microinsurance DNA,* the importance of implementing social performance indicators, it is best to start implementing such practices in a rising market than in a market where it no longer applies. SSF's work is relevant because of these elements. In the future, when the market is more developed, microinsurances can implement performance indicators as in the Philippines (see Annex V). In product issues, we discussed products that are easy to use but they have high impact considering the needs of the microinsurance target population, e.g. hospitalization insurance, personal accident and funeral expenses. In this context, it is important to promote such products.

There are many products that could have "demand" in El Salvador to cover the needs of the microinsurance target population. These include insurance savings, provided that the deposit guarantee is only for certain savings and credit institutions, and most MFI do not have such a guarantee. Similarly, there is a great need of social housing insurance, once the credit is paid. If they prepare the agenda on legalizing, this housing would be a good opportunity to accompany the process of signing up for an insurance product. Public-private partnerships should be strengthened to the maximum. We should analyze the possibility of certain obligatory property insurance considering the high accident rate in El Salvador. However, with the antecedent of SOAT /FONAT we anticipate that it may be difficult. One of the elements that result in closing micro and small businesses is extortion, insurance in this context, may be prescribed as a mechanism of risk management to reduce the impact and the micro and small employer are not bound to close their MYPE. CONAMYPE noted that out of 10 micro and small entrepreneurs, only 3 or 4 operate for 6 month and out of these only 2 or 3 remain open after one year. Similarly, we suggest analyzing the possibility of providing urban products, considering that most urban inhabitants are poor. Another tool of interest to ensure financial inclusion is civil liability insurance of financial correspondents. On the other hand, unemployment insurance, education, health are of great interest, as there is lack of support for unemployment, and in the case of education and health, there are areas where the cost of the lowest three deciles is the same as the higher deciles.

To evolve in the process of product innovation it is essential to hire actuaries to stream product design.

Channels. It is vital to empower MFIs, because now they are not utilized to their full potential. One of the benefits of credit for the informal sector is that there are many organizations offering products that need to have debt insurance and this may be the first gateway to other products. It is important that while reporting on internal innovation, insurers emphasize the government projects and the importance of public-private partnerships mentioned here. Likewise, there are multiple gender associative groups that are of interest and begin to emerge as transaction channels and platforms in El Salvador, for example, women's networks as Avon, Herbalife, Ebel, mainly conglomerating women, the program *Ciudad Mujer* managed by the Financial Inclusion Secretariat of the Presidency, and the like. Such channels may be particularly useful in offering gender products (e.g. health, income foregone, etc.). They need to reach the insurers that have captive demand through channels they already have but have not maximized.

Compensation of channels. Channels commissions must reflect the work performed. This should take into account factors such as offering financial education programs, as those of some MFI members of ASOMI, or accept increases in the commission rates depending on renewal of insurance products.

Role of the insurance intermediary. It is to link actively insurance intermediaries that have the capacity and scope of microinsurance target population, and can compensate informational problems. During the visit, we had the opportunity to discuss the role intermediaries can play. Professional intermediaries have skills, they know the industry, make a particular emphasis on the customer, guide consumers, avoid anti selection, and identify unfair terms. Recent changes in consumer protections place the right to information in the center of debate. Therefore, it is vital to comply with it and use of the broker is an option. If the channel participates, perhaps we can think of a triangular relationship in which the channel may be recorded as a marketer with fewer requirements, ignoring the whole issue of training, which is done by the broker or other agent. The cost of integrating insurance intermediaries does not increase, since the insurer will not invest in training him, that usually involves a significant investment. However, brokers should note that this is not cost-effective overnight.

- *Lack of cohesion between insurers generates weak self-regulation.*

We may think of the possibility to separate ASES in two chambers, first the entities belonging to clusters and those that are not, including Seguros Futuro. This will take into account their differences of opinion but they can work to assume a cross cutting position on the topic of microinsurances. In those terms, microinsurances may be considered a tool that provides cohesion. It should be recalled that the three pillars of financial responsibility are regulation, self-regulation and increased consumer capacity. Unionization is the key to advancement of self-regulation, but it is also important to build on the recent corporate governance regulations to issue codes of conduct and corporate governance, these should favor provision of products to the most vulnerable. Given that sometimes the cost is a restraining cause, we suggest setting membership amounts proportional to the size of the entity.

- *Lack of knowledge of the needs of the target population.*

Three elements are discussed on this topic, 1. The use of the channel is vital to understand the needs of the target population, and this one should not conclude that only MFI knows this target population, certain insurance intermediaries also know this population because they have worked with them in the past. 2. Regarding support to microinsurance product design for the target population it is noteworthy that there are insurance intermediaries in El Salvador that have been in contact with microinsurance target population for a long time, because they manage insurance accounts with workers banks, CAC, etc. 3. At present, statistics may be used as basis for microinsurance, but information is scattered. For example, BANDESAL manages the land fund, it has collected information for many years on natural disasters, and public housing databases can bring important information to support technical notes that provide the basis for pricing microinsurance products.

4.3.2. Consumers

4.3.2.1. Constraints

Lack of awareness among the population about the importance of risk management and insurance and risk management mechanism. One of the major constraints identified throughout the study is the lack of awareness of the importance of risk management not only among microinsurance target populations but also nationwide. Moreover, people are not aware of the tools available to ensure risk management, such as insurance. From this point of view, insurance companies stated that it is difficult to penetrate a market where there is no insurance awareness in the target population (demand), and they need to invest more to create this awareness. A close view to the tools available to create risk management awareness showed that there is government strategy that addresses this issue. For example, the National Strategy for Financial Education has only recently included the topic of insurance to be addressed on the radio, but it does not include risk management. In this context, until a couple of months ago, the focus of this strategy was credit, savings, and consumer's rights and responsibilities. All these aspects are essential, but if the topic of insurance, risk management and other related subjects, is not integrated into the topic efficiency of financial education is limited. The Consumer Protection Law Item d) Article 5 (Decree No. 776 of August 18, 2005) states that the consumer undeniable right "*to be educated and informed on consumer topics*." There are training programs focusing on financial education in microinsurances in the country, these programs are REDCAMIF through ASOMI and Seguros Futuro (See Table 15).

The lack of knowledge about the existence of risk management and insurance is not only delivered to the microinsurances target population but also in some channels that can influence the decision of such products as MFI.

National Strategy for Financial Education – SSF, BCR, DC	Financial Education Program REDCAMIF	Financial Education Program Seguros Futuro	Beyond the money-HSBC
El Salvador has a national Financial Education program implemented by the Central Bank, the Financial System, Superintendence of Securities and Pensions, the Institute of Deposit Insurance and Consumer Protection. Insurance is part of the Financial Education program. The program targets both adults and young children, and uses television, radio, print media, books, web sites, presentations to institutions and others for dissemination.	Training MFI officials in El Salvador FUNSALDE and ASEI. First training instructors by international consultants, then training loan counselors. Afterwards, consumer financial education. The methods used are a game similar to bingo and classroom lectures offered by credit counselors.	Under the framework of repatriation and remittances insurance offered by Seguros Futuro, a program of financial education and customer support has been under implementation since 2010 together with Habitat for Humanity and FEDECACES, with the support of ILO. This program included a training project for officials of the cooperatives involved in the microinsurance marketing process (*Guide to Financial Education on Microinsurance*).	Financial Education projects led by the banking sector such as "Beyond the Money" program led by HSBC and Junior Achievement Worldwide, and is aimed at children and teenagers in some Salvadoran schools.
YES and it is being currently promoted	YES	YES	NO

Table 15. Financial Education in El Salvador

Poor knowledge and access to protection mechanisms of the target population. The existence of the DC in El Salvador is a breakthrough and has a positive impact on the responsible development of the microinsurance market unlike some neighboring countries like Guatemala, that do not have a similar organization. Now the DC is not a consumer organization advocating the financial system, therefore some flaws on the topic and even competence errors are submitted. On this last point, according to the LSS reconciliation to take place in SSF is a prerequisite to use other mechanisms of to solve conflicts. In this context, the consumer in El Salvador may be subject to confusion over who has jurisdiction to hear their claims and what is the mechanism for claims. Added to this is that both SSF and the DC Consumer have their official headquarters in San Salvador that may be intimidating for some consumers.

4.3.2.2. Strategies

- *Lack of awareness among the population about the importance of managing risks and insurance as a risk management mechanism.*

It is vital to integrate the topic of risk management and insurance as a management tool in National Financial Education Strategy (ENEF). In this context, they must focus on creating awareness of risk management first, then insurance and then microinsurance. SSF has a marketing department that can provide support to implement financial education tools. SSF can draw on international experience in financial education and insurance mechanisms to implement it more effectively. They should take into account the OECD criteria to adopt national strategies for financial education, particularly stressing the importance of measuring impact and monitor all measures taken in the context of such strategy.

On the other hand, financial education strategies need to be consistent and continuously be delivered in the country with ENEF. It is vital to promote as much as possible the use of this platform, so that the resources invested are not wasted on inventing something that is already there. Virtuous circles may be supported as well as a link to such strategies. We suggest that the Committee on Financial Education develop its strategy with the support of ASOMI and Seguros Futuro that have specific financial education programs for microinsurances. A stamp brand of El Salvador may be issued to acknowledge this support, and to grant higher reputational value to such entities. It is equally important that the private sector of insurance industry to be united in the discussion of financial education. ENEF may be used as the means to train future technical assistants in the context of CRECES, it may also provide advice to entrepreneurs and others grouped in other CONAMYPE and BANDESAL projects.

The Consumer Advocacy System provides a system of recognition for private entities involved in financial education, this point should be promoted and potentiated and promoted in the companies in order to compete to receive such awards that may be capitalized in the future as part of its corporate social responsibility.

It is essential to include marketing channels in these processes; they must also know the importance of risk management and exact knowledge of the product they sell.

Keep in mind that not only financial education creates culture, in fact in some cases it questions its impact. In this context, there is no doubt that the best way to create risk management culture is exposure to products, thus mandatory insurance become significant. That said, compensation payments also need to be advertised. Create immediate marketing strategies where they will explore the idea of "if you had been insured..."

- *Poor knowledge and access to protection mechanisms of the target population.*

DC has adopted a decentralization effort, particularly through its Mobile Advocacy program, through which it travels to various municipalities to provide its services. This development is important for microinsurances.

The strategic objectives of SSF in 2013 are to protect the user of the financial system and expand the financial system (SSF, 2012). DC is closer to most vulnerable areas, using innovative tools for example, using television programs to raise awareness on DC among microinsurance target populations.

One of the characteristics of the microinsurance target population in most countries is the lack of access to justice, and El Salvador is not the exception. In this context, they are to promote awareness of the mechanisms available to file complaints and resolve conflicts and access to it are suitable. In this context, we suggest the possibility of using alternative means to resolve disputes in adhesion insurance, allowing their use particularly in small claims arbitration.

4.4. Cross Cutting

4.4.1.1. Constraints

- *Lack of trust and context of crime and violence for the right application of platforms that can streamline transaction processes of microinsurances value chain.*

Maximizing bank correspondents and mobile banking is essential to increase the penetration of microinsurance, reduce operational costs and transaction. However, this issue should be analyzed with caution in El Salvador considering the context of violence and crime in the country. During the visit, an important finding was that all respondents were extremely positive about these two tools and they begin to acquire recognition. However, all respondents said that they needed to make more inquiries to see whether the population trusts these mechanisms to carry out financial transactions, especially considering that most consumer complaints have to do with mobile phones, and focus on how violence can affect banking correspondents and mobile banking in the country. In the latter case, a major concern is the responsibility of financial institutions when such events occur.

- *I get no insurance because I work in the informal sector.*

A dilemma that has significant impact on the microinsurance market is related to the question: what comes first, formalization or insurance? Can the informal sector easily get microinsurance? Such questions arise in a context of debate between the public and private sector, since this dilemma results in having most of the informal sector with no access to insurance.

4.4.1.2. Strategies

- *Lack of trust and context of crime and violence to the appropriate application platforms that can streamline transaction processes in microinsurance value chain.*

These are essential issues in which insurance play a key role since it can be used as a mechanism to protect financial institutions, e.g. by civil liability insurance. This may extend the scope of insurance for MFI. The government should focus on fighting crime and violence; it should quantify the losses caused by this scourge.

- *I get no insurance because I work in the informal sector*

It is imperative to analyze formalization issues of microenterprises ("*Miempresa*" webpage), legalization of houses, provision of DUI (ID card) together with risk management policy, where insurance plays a central role.

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