

## Micro-insurance, Insurance, Reinsurance: Effective Tools for Development

Round table with

**Jean-Michel DEBRAT**, deputy general manager of the French Development Agency (AFD)  
**Marc NABETH**, consultant CGSI-consulting insurance/micro-insurance, Associate Fellow of Thomas More Institute  
**Michel VATÉ**, professor at Lyon Institute of Political Studies, Associate Fellow of Thomas More Institute

As the **France-Africa Summit is to take place on the 15<sup>th</sup> and 16<sup>th</sup> of February 2007**, and as France is to elect a new President who will have to deal with issues concerning development (immigration, strategic raw materials, co-development, WTO), the Thomas More Institute brings a new contribution to the insistent question of new solutions for development aid.

This note follows the research works begun 3 years ago with professor Vaté around the subject of **insurance in the service of development**.

During a Round table in June 2006, the Thomas More Institute brought together 3 experts to freely debate the **opportunities offered by the development of micro-insurance and the perspectives that we can expect from the expansion of insurance and reinsurance for developing countries**.

Marc NABETH, the author of the first sum in French on Micro-insurance, shows the growth of this sector **in many emerging or developing countries**, in Asia, South America as well as in Africa. He proves that **the populations' adhesion to formal insurance is possible**

**as long as this insurance is financially, geographically, and culturally accessible**. He explains how **some insurers support the development of new socio-economic networks** by securing the advantages they were granted.

Michel VATÉ, in the continuity of the works he has already done for the Thomas More Institute, insists on the **necessity to fight against the "economic insecurity spiral"** that the populations suffer from when facing risks which, when they happen, put them in a more precarious situation. He details here, among other things, the concept of **Planet Re, a world capacity of available reinsurance, linked to the world financial markets**.

Jean Michel DEBRAT, with a wealth of experience as a "developer", underlines what **the development of insurance solutions can bring by stabilising and making their economic capacities last, especially for the rural populations**. He also confirms that an agency such as the AFD has a particular interest in news solutions for development aid, among which insurance seems to be very promising.

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Jean-Michel DEBRAT, Marc NABETH, Michel VATÉ

***In 2006, the launch of the initiative "Unitaid" was particularly noticed among all the events related to development. This new mechanism of financing and developing programs of fight against AIDS, malaria, and tuberculosis in poor countries was introduced by President Chirac and President Lula. This initiative is funded by the « air-ticket solidarity contribution». What is your judgement on this initiative— which objectives are obviously very laudable—concerning its architecture and its practical implementations?***

**Michel VATÉ** – As far as I am concerned I am not totally supportive of this type of financing. The aviation industry is weak and vulnerable. This was probably not the best sector to take responsibility for this financing. There is a real risk to finance such an initiative by taxing an activity submitted to important geopolitical risks and thus to irregular outputs. A precise contribution, of which several states would have made clear that they would maintain a permanent level of financing, would have been a better solution. This project was a response to a legitimate question about innovation in development aid and its international funding. However it does not cover all the fields of the issue. This is a laudable response though incomplete. The figures that were announced remain far from the global needs. Even if several countries happen to support the French initiative, several hundreds million or even one billion dollar will not be enough to seriously reduce poverty around the world.

**Jean-Michel DEBRAT** – This mechanism responds to a problematic the donor States had to solve: how could they find money for development without facing financial or public budget constraints they usually encounter? Everybody knows that the debt of the European countries is very high and that its rate is clearly controlled by the Maastricht Treaty and the Stability Pact. Besides, they had to find a contribution that was not submitted to political changes and budget orientations, expressed in the annual financing laws, which are, by nature, evolving all the time. There were important technical problems that needed to be solved to reach this goal. From the beginning, this problem was posed in very technical terms. Consequently, the response was technical: a very

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subtle financial and legal mechanism which enabled to circumvent the difficulties I just described.

From the beginning, it is very far from the real issue: researching perennial means for the long run; that is to say over 30 years. But, in a way, we are very close from that since the main idea is to avoid taking hard decisions every single year. The answer that was adopted was one of a tax levied for a specific purpose: financing public spending by specific revenues with a precise evaluation; in this case it would be done by taxing the air companies and their customers. This principle of "specific revenue" is the result of the question. Choosing the aviation industry was Jacques Chirac's proposition, and a specific tax had to be found at the international level. What we are talking about here is, in reality, an embryo of an international tax system. According to me, this choice was coherent. As we face an international problem, a mechanism independent from the orientations and from the forms of application of finance acts (adopted each year by every parliament in each country) is created. This "international tax system" approach addresses a global problem and, again, it is coherent.

The technical options that were adopted can be criticized. But we are facing the enduring problem of global institutional governance: apart from the international treaties—which need years to be negotiated and finalized—what else could exist besides a special tax system? According to the supporters of the project, among which we find President Lula and President Chirac, pandemic issues are understandable by the world theoretical taxpayer: we put pressure on this taxpayer so that he/she can himself/herself put pressure on his/her government. President Chirac wanted to launch this initiative that we should consider as an experiment. And it will be a landmark proposition. There will be a before and an after this initiative.

**Michel VATÉ** – Public action requirements make it sometimes easier to promote certain schemes rather than others. Public action has constraints that it cannot avoid because it determines its possibilities. What is the most important: the constraints? The objectives? Looking for the best solution among those which respect the constraints could satisfy us. But should we not rather concentrate our efforts on the constraints themselves in order to



overcome the limits and to create new kinds of solutions?

**Jean-Michel DEBRAT** – The lack of a global or even regional governance system could have drawn the Heads of state to concentrate on the loosening of some of these constraints. Perhaps Jacques Chirac had no other solution; we have to admit that he had limited possibilities.

***Do we have an idea of how this initiative is perceived by poor countries?***

**Jean-Michel DEBRAT** – As one more initiative... but an original one. In its principle, the mechanism has been appreciated but everybody is waiting for the technical implementations.

***Beside these types of initiatives, by definition very visible in the media, other solutions are developing and are taking on new dimensions. Marc NABETH, you are the author of a recent synthesis about micro-insurance<sup>1</sup> : could you give us a historical account of micro-insurance?***

**Marc NABETH** – I could do it if there was a definition of micro-insurance that everybody agrees on. But there are differences about its exact definition. For example, should we say that micro-insurance is exclusively for individuals near the poverty line? Or is it more a new form of social protection which also includes the destitutes (it would then be a social distribution rather than an insurance mechanism)? Could we say that the populations of emerging countries that approach middle-class standards, whose revenues would be the equivalent of half an insurance premium, have fulfilled the conditions for micro-insurance guarantees? In this case, would micro-insurance be a kind of low cost insurance, a new range of products proposed by inventive insurers who seek to diversify either their sector or their geographic scale?

Concerning this historical record of micro-insurance, you understand through those questions that micro-insurance does not only concern

<sup>1</sup> Marc Nabeth, *Micro-assurance. Défis, mise en place et commercialisation*, Paris, Argus de l'assurance Editions, 2006. The book was awarded the "Grand prix du livre 2006" of the Centre des Hautes Etudes de l'Assurance.



Marc NABETH

the small health mutual insurance societies that were created after the Bamako initiative (1987) to compensate for the bankrupt of national health insurances. The majority of micro-insurance programs still concern health mutual insurance. However, from the 90's on, we have witnessed the development of life insurance, health insurance and property insurance developed by national or international insurance companies, brokers and also reinsurers. It proves that a society is not only composed of well-offs or big companies.

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The Bengali commercial insurance company Delta Life is, in this sense, an often-quoted forerunner with both its products of endowment insurance Grameen Bima (1988), suited for poor rural populations and Gono Bima (1995), extended to urban and periurban areas. A qualitative and quantitative improvement is to be noticed with the Ugandan subsidiary of AIG (American International Group), a world giant of the insurance sector, which signed a partnership agreement with Finca (a microfinance institution) in Uganda in 1997. Since this 4-month agreement satisfied both contracting parties it has then be duplicated—the result is that AIG Uganda and its 26 microfinance partners (24 in Uganda, 1

in Malawi, and 1 in Tanzania) is thought to have at 1.6 million clients.



We could find many other historical examples but let's concentrate on two countries which do not really see micro-insurance with "the sympathy that one can have for local products", a phrase from Jean-Michel Servet<sup>2</sup>. In South Africa, micro-insurance keeps developing, notably thanks to funeral coverage sold in the townships. We could quote Old Mutual, African Life, Hollard, and many others that, since a few years, wish to meet the strong demand of the Black population that has low revenues. Concerning the Indian Union, the IRDA (Insurance Regulatory and Development Authority) forces the commercial insurance agencies to devote a great part of their activity to micro-insurance. This legal obligation concerning "the rural and social sectors" (the terms used to define micro-insurance) challenges the insurers on existing or coming synergies between private and public actors or on the subsidiary policy of the public sector. We will come back to that later.

Since 2002, we also find in India, AIG (through TATA-AIG), Aviva, ICICI Prudential, Royal Sunderam, and many other companies, among which Allianz. This world leader of the insurance sector, which underlined last year its will to regionalize its micro-insurance activities, has recently taken action in Indonesia. After a market survey, led with the German GTZ (Gesellschaft für Technische Zusammenarbeit) and the UNDP, Allianz Life Indonesia has launched a credit life insurance plus additional benefits for credit customers. It now wants to insure more than 50 000 persons (for a 70-cent insurance premium per year and per subscriber!). This project is led in partnership with NGOs, with savings and loan cooperatives and local MFIs (micro-finance institutions). Another example can be found with AXA. The company is on the verge of entering the micro-insurance sector in Morocco with a spectrum of products (credit life insurance, property insurance, business interruption insurance). Their target is a population with low incomes, that is to say micro-credit association customers.

Finally, if micro-insurance is historically linked to development issues in emerging countries or

developing countries (with different levels of development), we should keep in mind that it is a nascent sector in France. For example, the project "Entrepreneurs of the cité" has been launched this year with the support of important industrialists of this sector (April, La CNP, la Mondiale, AG2R, Axeria iard) and associations such as ADIE, France-active, France Initiative Réseaux or les Boutiques de gestion<sup>3</sup>. The insurers offer a wide range of products (subsidised interdependent protection without fees) to the creators of micro-enterprises who benefit from the RMI (an income support given by the French government) or unemployment benefit. Finally we could quote the reinsurers' involvement, and notably the second world leader, Munich Re. The reinsurers' interest is not surprising since they are often in the forefront of R&D, so that they can be ahead of the insurers, their clients.

With this partial geographical and historical overview (we could have talk about many other countries in Asia, Africa or South America), we understand that the mentalities are changing and that suspicion and the lack of understanding between the insurers and the population can be avoided. The important actors of the insurance sector that I have already quoted agree that insurances are not necessarily superfluous or a luxury. On the contrary, it addresses one of the populations' real needs: security. Is this a new need? Not at all. By quoting Mary Douglas' research, an anthropologist, François-Xavier Albouy, insisted on the fact that "human societies can also be considered as forms of protection against external risks, hazards of life"<sup>4</sup>. However, for many reasons, ranging from the erosion of traditional societies to the logical limits of a reduced

mutualisation, "informal" risk management (participating in reciprocal borrowing and lending system of welfare association, strengthening social networks, borrowing from relatives or informal sources, diversifying income sources, managing money well by controlling consumption and maintaining access to multiple sources of credit, etc..), even if they seem necessary, have revealed obvious

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<sup>2</sup> Professor at the Institut Universitaire d'Etudes du Développement of Geneva. See "En quoi la microfinance participe au mouvement de mondialisation ?", available at: <http://w3.univ-tlse2.fr/cerises/recherche/jmscnamatelier.htm>.

<sup>3</sup> See <http://www.entrepreneursdelacite.org>.

<sup>4</sup> François-Xavier Albouy, « Principe de précaution, prévention et assurance », in Jean-Hervé Lorenzi and Philippe Trainar (dir.), « L'industrie mondiale de l'assurance », *Revue d'économie financière*, 2005, N° 80.



limits. The populations' concern about the optimization of their risk management partly explains the development of micro-insurance within a context of demographic, political, socio-economic or even cultural changes. Finally, to end this historical overview, let's recall that the evolutions of the micro-insurance sector follow the evolutions of the microfinance sector and its new products (saving, fund transfers, and not only micro credit anymore). But it still keeps its own specificities.

***You quote important international insurance companies. Concerning the professions of the insurance sector, what can we learn from this 20-year experience of micro-insurance?***

**Marc NABETH** – To begin with—and keeping in mind what we have just said—I would say that the experience of these past 20 years challenges the idea that insurance is useful for only 10% of a country privileged class. The idea that a population with low income is insolvent, fatalistic, and unable to understand the concept of mutual insurance system or risk transfer, is about to be overcome thanks to more complex and more interesting viewpoints. But problems still exist and it would be a mistake to think that micro-insurance has become obvious. Nonetheless, numerous objective and subjective obstacles have been overcome over the past years. A 20-year experience proves that some insurers have realized that the social pyramid is not fixed for ever, that societies change, and that insurability does not necessarily have a very well-defined threshold.

It is often pointed out that the commercial function of a company and the social objective of micro-finance are incompatible. It is thought that management and commercialization charges would be too high for such low insurance premiums. Once again, even if there are real difficulties, solutions have been found. I hope that I convincingly proved this point in my book thanks to practical examples. The micro-insurance sector can be profitable and viable as long as it is studied, prepared and monitored. Some insurance companies develop micro-insurance without losing money and subtly play their economic, social, and commercial role even if their point is not to get a very high profitability—it is not *a priori* their point. However, those national or international insurers do not operate at a loss; in some cases they even make profits which are not negligible and get fundamental side benefits.

In some developing countries, the insurance sector has become as strategic as it is in rich countries. It is highly probable that the insurance industrialists will have to anticipate the end of “the State insurer” in numerous countries, sometimes under the pressure of the legislation. We have talked about the Indian case but I noticed that other governments tend to follow a similar scheme. Of course, some insurers sometimes regret unrealistic, ill-timed legislations which are bound to fail because of a too big ambition. For example, in some countries, you can try to impose compulsory liability car insurance, but it will be impossible to implement and it will be vitiated because of an endemic corruption or because the rule of state does not exist. But some insurance companies see a positive dimension in this obligation imposed by some states (such as India); in this case, the insurers have to participate in micro-insurance, whereas otherwise they could tend to segment the populations and to eliminate huge parts of them from their strategies.

There is another conclusion that can be drawn from this analysis: the benefits, concerning the R&D and innovation field, the international insurance companies made by working on complex and innovative products such as micro-insurance products. Those profits from social, economic, and organizational innovations can be reinvested whether in emerging countries or in developed countries. In the previous years, we also

learnt that some insurers had a commercial interest in setting up in new markets with big potential and in betting on the fact that some part of the population will soon be part of the middle-class.

Finally, everybody underlines the positive dimension of this approach in terms of communication and corporate social responsibility. Whereas many conferences are organized about sustainable development, citizens from rich countries consider insurance as obvious, as an obligation, it is important

to insist on the fact that insurance is actually a subtle construction which is an integral part of human sustainable development. Whereas it was first considered as a utopia, the experiments of the last years showed that micro-insurance is a necessary investment to ensure development.

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***Jean-Michel DEBRAT, which directions will public organisms such as the AFD (the French Agency for Development) give to their actions about issues such as insurance in poor countries?***



**Jean-Michel DEBRAT** – I think we can say that insurance is becoming a tool to answer the “developers’ ” fundamental questions more than a tool for development aid. For the developers, insurance is not a luxury. Taking out insurance, in the French meaning of the term, is the beginning of investment. In developing countries traditional societies, a form of insurance comes from the stability of the informal economy and from the role of shock absorber plaid by cattle sales for instance. But those societies are not able to cope with climatic factors except in terms of decapitalization.

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In modern economy, monetary profit is made on a volatile market: in those countries, the volatility of the markets or raw materials for example. We know that this volatility can have disastrous consequences on local economies. To face this problem stabilization funds have been created... but they did not prove efficient. They were not enough centralized and too linked with the local powers. Plus, they were the victim of the fall of the prices, of bad management, of excessively interventionist policies. The scheme of these compensation funds failed.

This leads us to the concept of insurance. What complicates the problem is that the mechanisms of insurance are limited to the formal sector where the knowledge of the risks can be measured, and ratemaking techniques and procedures of reparation are well-established. To make it short, we more or less work in a European manner; which makes us forget 90% of the population.

Traditionally, the AFD puts its efforts into rural development, including in the Sahel where it largely funded the cotton sectors. A problem appeared very quickly: the variability of the prices. When the prices plummeted, the only solution was to inject public funds. But, because of budgetary constraints, the Africans cannot afford it. The States that can provide help only did it when there were big crises and only to avoid an aggravation of the situation, especially of social crises. But this is not a long-term solution.

***You seem to particularly insist on agriculture and on the rural sector. When can insurance intervene?***

**Jean-Michel DEBRAT** – The AFD thinks, since a very long time, that the destiny of the peasantry is a

central question of development issues. Generally, it is thought that the weight of the informal agricultural sector is to naturally decrease. Then, not only do we abandon the rural areas but we also abandon the sector itself. For the AFD, accompanying familial agriculture is part of the issues related to development either with positive aspects (capitalization, technical progress) or with negative aspects (deconstruction, immigration).

What could we do with a country in which 50% of its population wants to leave the region where it lives? We are

here at the centre of the demographic issue that is so important in those countries. The economic development was always linked with migration movements; and the first region where it happened was Europe. Within France, people left their region to settle in others. Development means immigration. We can observe the same thing today in Africa. But why do people leave? Immigration remains essentially related to economic difficulties; and it has its rationality. People do not voluntarily leave their roots, their regions. They have to leave because of wars, ostracism, and misery. They hope they will find better living conditions somewhere else, especially concerning employment and education possibilities. But the mechanism does not work very well since the last 20 years. We are beginning to see it in Europe but the developers know that this is an essential problem in Africa. Some cities has grown from 100 000 inhabitant 20 years ago to 500 000 today. The 400 000 newcomers do not bring anything, or nearly, with them. They are not absorbed by the urban system; they get few jobs in the cities. They come and disturb everything that exists. No urban system can properly function with massive overpopulation. And migration movement destabilizes the region of origin as well as the arrival region. The economic meaning of these movements becomes less and less certain and less and less easy to identify. What can we do to properly support those inevitable migration movements in the heart of regions with limited potential? The objective should be to give all the migrants a sufficient background so that the chance of moving to a new region is worth being taken.

I come back to the rural issue. How could we do to protect familial agriculture—which fixes population—from globalization? It is, in itself, a minimal objective. And this is where insurance can play a role. One of the main scourges that affect familial agriculture is the

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unpredictability of incomes. There are two ways of fighting it: subsidies or insurance. We have to think about long-term objectives and about the means we have to develop so that familial agriculture can represent a living for the next couple of generations.

We know that familial agriculture can be exported; problems of international exchanges are huge but surmountable. The prototype would obviously be cotton. Even when slight problems arise the peasants have to decrease their purchase of fertilizers and seeds because of their low financial capacity; otherwise, they would be unable to repay their rural debt. The banker has to ask the insurer to solve the problem. There is a transfer of the credit risk from the banker to the insurance company. The French cooperation got interested very early in the mutualisation of the purchase of fertilizers and seeds; consequently it got interested in the financial equilibrium which resulted from this mechanism thanks to micro-finance. What is true for the analyses of consumption society is also true for developing societies: how can the risk be managed between the credit risk and the risk taken by the insurer?

The fact that insurance products adapted to familial agriculture exist is a means of development in itself. The developer will stop here: he/she will try to commit himself/herself to projects, studies, and experimental initiatives. If it can be demonstrated, then the market will do its job.

#### ***According to which criteria for you?***

**Jean-Michel DEBRAT** – As a tool, insurance cannot substitute itself to the progress of social organizations.

Nonetheless, it supposes them. A mutuality system that functions properly becomes a corporate body that can be insured. In Africa, a grouping of villagers will be more easily insured than a small individual peasant. The insurance mechanism cannot answer this question: what needs to be done so that the grouping can function? In general, when there is a moral uncertainty, it is included into the cost of the risk. At the end, the customer pays. But we should not rely too much on this reasoning on pain of destroying the equilibrium at one time or another. It would end up with a moral system in which those who pay also pay for the others. This mechanism needs a referee but this referee is not always economic. Should enormous amount of money be spent to sue somebody who is dishonest? Yes, if the goal is the limitation of this kind of risks.

At the micro-economic level, it is not always rational; you can make some adjustments, include it into the losses for instance. It is a short-term reasoning. We know that there is a fraud rate which can jeopardize the whole system. It is the same principle as the tax control: honest tax payers represent 95% of the totality. As long as this rate is respected, the system can be managed. On the contrary, if this rate falls down to 90% for example, it would become hard to handle. There is a social control system either through repressive and legal means or through internal self-discipline which is in itself an element of development. Participative development makes it possible to reach

this result, the insurers do not. Sociological studies are funded to explain that things will get better in villages where deviant behaviours are avoided. The AFD finances expertise, sociology of organization hoping that within a decade producer organizations could be viable for example...

When this step is reached, the insurance company can intervene. It cannot play the role of a development educator. It has to intervene at the right moment, not too soon, not too late; when it can find solid potential clients and a globally solvable clientele.

Micro-insurance is integrated into AFD-led projects because it is interesting for public money to help demonstrating the viability of these systems under certain conditions. This is the philosophy of our agency: to create the market and to get out. Creating the market means structuring the market and accompanying the actors to the market. 40 years ago, in the overseas territories, we created finance companies with the AFD simply because there was not enough credit offers, especially for small and middle-sized enterprises. Once the market got mature

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and once those societies were launched, they did not need to stay within the AFD. They were sold to solid bank actors. Thus micro-insurance mechanisms have to be integrated within those of micro-finance, which themselves have to be integrated into projects of global development.

**Michel VATÉ** – I completely agree with this philosophy of development aid. The question of the insurability of the risks—that is to say conditions which authorize the implementation of insurance for a given risk, in a given society, at a given moment—has to be examined first so that an effective system of insurance can be built. Obviously, these conditions are not met everywhere, or not at a desirable level. One of the goals of development aid is to build global programs. They can play with the constraints so that insurance can, at one point, come on top of it. A type of actions which takes into account environmental constraints has to be chosen but the reversal of the factor order is a positive approach. We do not content ourselves with optimizing what already exists in a narrow system of still constraints. One part of the mission consists in overcoming the constraints so that a new tool—insurance in the general meaning of the word—can be put in place and produce all its effects.

**Michel VATÉ, your propositions have been synthesized in a Note published by the Thomas More Institute, "Reinsuring the planet, towards a pro-poor financial globalisation"<sup>5</sup>. You base your analysis on the "capabilities" of the economic actors in front of the risks. What do you mean by that?**

**Michel VATÉ** – First I have to say that I am not the one who coined the expression "capability", the economist Amartya Sen defined it in his book *Commodities and capabilities*<sup>6</sup> and he largely uses it in the model of development he set out in *Development as freedom*<sup>7</sup>. I used this neologism of "capability" rather than capacity because it has a narrower meaning to describe people's ability to generate the incomes they need to live, but also the real freedom

they have to choose between the different lives they can live. It is the synthesis of those "capabilities" which forms the heart of a development process. In a poor country, the increase of wealth, of productions, and of incomes is the sum of what can be realised where productive activities grow. But these activities are generally farming, commercial, or local craft micro-units that largely rely on individual capacities.

**You also talk about the "economic insecurity spiral". Could you detail this notion?**

**Michel VATÉ** – About the economic security and insecurity, I developed two ideas. The first idea is about a global capacity of available reinsurance, linked to world financial markets; we will probably come back to that later. The second idea takes into account the "initial risk". The initial risks are those of which the implementation damages the factors that determine the income individuals can benefit from in return of their productive activity. The risks can take different forms: diseases, accidents, the loss of the tool,

destructions of the harvests etc. Whereas he made an effort and produced a work, the peasant finds himself without incomes and so without the "capacity of moving on": to save, to consume, to get rich, to produce more etc. The worst is that, insofar as he has not immediate resources to replace those destroyed by the disaster, he has to take the low surplus he had previously accumulated just to repair the damages of which he was absolutely not protected. This is the economic insecurity spiral.

As an economist, I think that there is a theoretical problem here which is as important as the questions about endogenous growth, technical progress, or the role played by education or infrastructures in growth. This is really about survival conditions and the way out of the under-development vicious circle. The initial risks first appear at the micro-economic scale (the farms for instance, the micro-enterprises); but they also have to be inserted into the representation of development as a micro-economic concept. Situations of climatic catastrophes are a good example. Let's take the example of Niger. The farming season 2005-2006 has been catastrophic because of drought and desert locust outbreaks. Even if 2005-2006 happens not to be a dry year, there will be an "aftershock" of the previous year that was marked by the economic consequences of the choices that the peasants had to make — including migration as Jean-Michel Debrat

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<sup>5</sup> Available in French and in English at [www.institut-thomas-more.org](http://www.institut-thomas-more.org).

<sup>6</sup> Amartya Sen, *Commodities and capabilities*, Oxford, Oxford India Paperbacks, 1987.

<sup>7</sup> Amartya Sen, *Development as freedom*, New York, Knopf, 1999.



Michel VATÉ

showed it. With the most positive hypothesis, that is to say a mild natural environment, peasants could take a full advantage of their activities because, at the same time, they would have to take on the repercussions of the previous catastrophe: not only do the repercussions are the direct result of the crisis but they also are the consequences of the choice that were made to face this crisis.

As we speak about telluric aftershock after an earthquake, there is an economic aftershock which happens after the initial catastrophe. Its consequences, in economic terms or in terms of human lives, can be as important as the event itself. However, whereas we can use world emotion and huge financial means to react to the catastrophe (human pains due to drought is understandable for everybody), its aftershocks are seen as an inevitable banality of the third-world. And it does not draw very much attention...

***And this is when insurance and its mechanisms can intervene. What are the advantages we can expect from this intervention?***

**Michel VATÉ** – No devises—that would dilute the risks, share them, or transfer them if needed, whatever the technical setting—would be able to prevent a catastrophe. But it will break this vicious circle: the impossibility to

prevent a hazard that makes the individual even more vulnerable for the next hazard.

Since he cannot prepare himself by taking from the benefit of his activity, the destruction of this benefit, upstream or downstream, makes him unable to protect himself for the next step. The insurance, in its largest meaning, is the most effective means to solve this problem. The multiplication of micro-insurance experiences has shown everywhere that some populations have been able to invent shared-risk systems and resource mutualisation; not only in terms of interdependent engagement for the future but also in terms of an instant contribution to a saving which goal is to prevent a person who was victim of serious hazards from being economically destroyed. The principle of insurance is that the vast majority of the people who are lucky pay for those who are not.

**Jean-Michel DEBRAT** –A catastrophe happens and there is a loss. The loss has implacably happened, it will not disappear. But from this moment on, two ways are possible: either we let the victim on his/her own, isolating him/her so that the community will not be affected, or, on the contrary, we consider that the interest of the community is to stop the disaster and to act on the consequences for social cohesion and economic equilibrium reasons.

**“As we speak about telluric aftershock after an earthquake, there is an economic aftershock which happens after the initial catastrophe.”**  
Michel VATÉ

Michel Vaté was speaking about the notion of “initial risk”. You have to realize that this is not necessarily spontaneous in poor countries. There is sometimes a whiff of fatalism, you can often hear “you get used to everything”... When a family loses 200 CFA francs, it can be a catastrophe: children must be taken out from school, health will not be a priority, and it can have rapid consequences on its work capacity: it cannot buy

**“We have to wonder if it would not be a good policy to prevent at all costs those who are already poor from taking a risk and lose everything they have; we could nearly say that this is a question about law and order.”**  
Jean-Michel DEBRAT

fertilizers for the next year etc. This is the spiral of the worth. Then, we have to wonder if it would not be a good policy to prevent at all costs those who are already poor from taking a risk and lose everything they have; we could nearly say that this is a question about law and order. In developed countries, you have to be insured in some cases. In this case insurance becomes anti-usury. The principle of usury is to take advantage of a generating negative fact to amplify it and to make the children dependant of their parents’ loss by filling it in through a loan to a usurer. By treating the principal risk, we try to preventively soften the cofnsequences.



**Michel VATÉ** – The risk that I call “initial” is initial because it is at the starting point of a risk chain. But it is especially initial as a primary risk at the heart of the producing process of wealth. This allows the individuals to survive, to live better in the future. This is a promise without which there is no human development. There are native risks which precede initial risks linked to the place where the individual is borne and where he lives, independently of what his job is. There are also established risks around propriety for example. If the house of an individual is built and then destroyed, it is less important than a sum of small primary risks because, I insist on this point, they are at the heart of the process of wealth production. The risk chain, just as dominos, is a theoretical problem. How can we insert this notion into an analytical representation of the combination of the work, the tool, the financial and technical capital, the access to the market, innovation, education, health? In this perspective, it seems to me that the notions of primary and initial risks should be deepened, at least as concepts for economic analysis.

***Marc NABETH, which conditions should be fulfilled so that a stable and solid insurance market can emerge and be perpetuated in the developing countries?***

**Marc NABETH** – Denis Kessler insists on the fact that insurance expands in countries where the political and economic stability increases and, on the contrary, disappears in case of instability. To make it short, the first discriminating criterion is stability<sup>8</sup>. Of course, it also concerns micro-insurance. It seems inconceivable that an experienced insurer gets involved into a civil war zone or into insuring dishonest persons excluded from all the sociability networks. Dominique Ervard, from the Mutualité Chrétienne in Belgium, insists on the exemplary case of a mutual benefit society of the Idjiwi Island, in the middle the Lake Kivu—a particularly unstable region of the Democratic Republic of Congo. This mutual benefit society borrows Senegalese motto: “this is not because things are difficult

that we do not dare, it is because we do not dare that things are difficult”.

**“The risk that I call “initial” is initial because it is at the starting point of a risk chain. But it is especially initial as a primary risk at the heart of the producing process of wealth. This allows the individuals to survive, to live better in the future. This is a promise without which there is no human development.”**

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But this kind of involvement remains exceptional. A private insurance company, active in the micro-insurance sector, will often start by giving up on the humanitarian logic (which does not excluded humanity), and will look at things on the perspective of an improvement of an economically sustainable market. Does this exclude a social vocation? Not at all. And it would be a mistake to oppose those two perspectives. The insurance sector can be as social as it is financial, always balancing “between two ethics”. As Jean-Michel Belorgey (the French State Counsellor) says: the ethic of solidarity which allows to protect all the members of a community (including the weakest), and the ethic of competition and the

ethic of the market which states the fact that you cannot force the less weak to pay for the others (so that you do not neutralize their productive investment and their will to work)<sup>9</sup>.

This condition has to challenge the governments. If the insurers are actually ready to invest and to take an active part in micro-insurance, the authorities would be well-advised to help them in their tasks, for instance through an appropriate legal environment and by abandoning some obscure business. A well-thought and useful health micro-insurance system in Mauritania has undergone a dramatic decrease of the number of their beneficiaries during the year 2005 (from 3 000 to 638!) because of some beneficiaries’ discouragement after a political appropriation of this appreciated and appreciable mutual insurance company. Without getting onto the complexity of the subject, I would say that Jean-Michel Servet’s or Armatya Sen’s analyses on the virtue of a real democracy seem very relevant<sup>10</sup>.

<sup>8</sup> The Interview was conducted by Philippe Trainar and Robert Leblanc, “Risques géopolitiques et Assurance”, review *Risques* N° 59, September 2004. See also François Ewald « Quel cadre politico-juridique pour l'assurance ? », *Assurance, réassurance, une autre contribution au développement*, Paris-Bruxelles, Working Paper of the Thomas More Institute, July 2006, N° 4, pp. 18-20. Available in French at [www.institut-thomas-more.org](http://www.institut-thomas-more.org).

<sup>9</sup> Jean-Michel Belorgey, « Contre la discrimination ou l'exclusion à raison de la santé », *Revue Risques*, N° 45, March 2001.

<sup>10</sup> Jean-Michel Servet, « La microfinance en Inde », debate with Jacques Pradès, IUED, Genève/Université de Toulouse 2-Le Mirail, 2004. And Armatya Sen, *La démocratie des autres. Pourquoi la liberté n'est pas une invention de l'Occident*, Payot Edition, 2005.



According to me, there is another condition to be met to make micro-insurance sustainable: not to give micro-insurance powers it does not have. It cannot be a security net for dishonest persons but it must aim at equilibrating its micro-insurance portfolio. Pooling resources between the persons near the poverty line and the persons near the middle-class standards seems relevant to me. One can object that it will lead, in the long run, to the abandonment of the poorest. But I am not so sure about that. We can consider micro-insurance as a part of the insurance sector, but it still keeps its specificities and it will want to show how useful it could be for the developers, for the population, for the governments.

Another condition lies within the good adjustment of the offer, which implies a very good knowledge of the market and its target—and this is not always that easy. The viability of the program depends on it. Proposing new standardized products without getting first interested in the needs of the population as they were expressed is an elementary mistake.

The choice of the geographical area is also essential. For instance, beginning with remote rural areas is of course understandable in a long-term economic logic but it can be extremely risky if there is not a strong link between the local partners or if the domestic public authorities do not offer their full support. The ideal situation in this precise case is to rely on existing programs or structures: the rehabilitation of food-crops, of rural cooperatives etc. We notice that micro-finance is developing where collective structures already exist, and where economies of scale and economies of running are feasible in rural as well as urban and periurban areas. Thus, I totally agree with Jean-Michel Debrat's analysis about a micro-insurance being integrated in AFD-led projects when he says "to create the market and to get out". The insurance companies can and must have relays.

This leads to a third condition: the choice of the right local partners. The objective is to prove to the populations that insurance can bring them an essential product: security. If those populations have the impression that insurance cannot bring them anything, they will not

participate in this project. As a consequence, we have to take a special interest in the psychological and social structures of the population and in their way of apprehending and dealing with daily risks. It is imperative to be able to count on your partners, especially in the local voluntary association base. Micro-insurance has to appear as an extension of the traditional risk-management structures. It also has to fall within the general pattern of societal cultures. And this is not a specificity of the micro-finance sector. In our own countries, insurance changes with the evolution of the representation we have of the risks. The insurance against cancer functions very well in Japan but, so far, it is a failure in France.

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Marc NABETH

***Let's focus on concrete examples. What are the most demanded products in countries where micro-finance is very well developed?***

**Marc NABETH** – If we focus on the actions of NGOs or big international institutions, health micro-insurance is, by far, the most developed field, essentially in the form of health mutual insurance companies. In West Africa, there are more than 600 organisations for 1 800 000 beneficiaries. Dominique Ervard underlines that 850 000 members regularly pay their contributions. But at the same time, he puts the real overhangs of the sector into perspective as he specifies that 60% of the mutual insurance companies have less than 2 000 members, and that micro-insurances only cover a low part of the population (between 1 and 10%). As for the private insurers, they tend to favour a loaner insurance, possibly with additional guarantees (additional capital in case of death, disablement-accident etc.), at least at the beginning, because this kind of product is less dangerous, easy to implement, and profitable.

But some circumstances or opportunities lead the insurance companies to develop other products. Thus, in Morocco, AXA is elaborating a range of products (loaner guarantees, damages, loss of farm) for micro-enterprises in the fields of tourism or business. The Spanish health insurer, DKV Seguros—a subsidiary of Munich Re—offers a cross-border health insurance for its South American



customers (essentially Ecuadorian) as well as for its Spanish clients who did not immigrated. There were many discussions about the development of death guarantees in South Africa, but we should remind ourselves that Satam was the first South African insurer which put its efforts into the marketing of cheap damage products by proposing household multiple line coverage for an annual contribution between 15 and 170 Zar (\$2.42 and \$7.5). In India, ICICI Lombard offers, through the distribution network of MFI, climatic by-product. In Philippines, Card MBA offers products of retirement savings among other things.

Making a good record of everything that is done around the world would make it possible to prove that everything depends on the insurers' expertise, on their partners, and on what the population is asking for.

**Michel VATÉ** – Besides what is asked by the populations, it is sometimes necessary to add compulsory clauses or extensions of guarantees in order to solve a formidable problem of adverse selection. When the insurance company has not the power to impose this obligation—because it could give the impression that it wants to win easy money on risks easy to cover—it could be helped by the fact that it is an obligation imposed by public authorities. It then just has to know that some guarantees are imposed on it. And it adds it to the product package that is already in its contract. It can then offer a whole range of insurance benefits on which it diminishes the phenomenon of adverse selection.

***Michel VATÉ, your proposition, called Planet Re, is essentially about reinsurance with the creation of a "reinsurance chain", overhung by what we could call a reinsurance world fund. Could you clarify this scheme?***

**Michel VATÉ** – Insurance has its own limit especially when the insurer is exposed to risks that are beyond his capacity. Going beyond what you can bear can come from very damaging circumstances, of which the total cost was not taken into account during the initial calculation. It can also come from a statistic accumulation of too many incidents. The consequences are that the cost of the global burden cannot be borne by the insurer, and even more logically, by the micro-insurer.

Every insurance company is subjected to this solvability constrain. It can be solved with mutualist systems which include an article in their founding charter that would force the associates to increase their financing if the real expenses happen to be higher than the original costs. Every single partner would commit himself/herself to this system as he/she would give a certain sum which could be revised on a *had hoc* basis, depending on the real cost of the damage. The peculiar situation of the countries with low revenues does not allow them to develop these kinds of insurance systems because their solvability is conditioned by complementary funds asked *a posteriori*. This system has to be solid, and structurally conceived to resist big shocks.

This is where the necessity of reinsurance appears. Rich countries have succeeded in collecting, along the centuries, tools, financial capacities and financial instruments which enable them to absorb considerable risks. When you look at the scale of the damages, an important catastrophe (climatic, terrorist etc.) costs several dozens billion dollars: we have seen that big markets can face such important disasters. But today, the GDP of many African countries represent a few billion dollars. If one of them had to face a major disaster—or an accumulation of disasters—its GDP would go down to zero; it would have been largely absorbed by the world insurance industry and by the financial markets.

Right now, micro-insurance organisms are doubly handicapped if they want to respect a satisfying "safety coefficient". First, they do not have the possibility to equip themselves with a capital that enables them to absorb shocks linked to climate variations or linked to an exceptional accumulation of disasters for example. Where could they find this capital if it is not thanks to those who need it most to support their productive activity? Besides, the small size of micro-insurers is also a handicap to implement rules borne from the law of large numbers, even in the case of regional federations.

The local insurance systems (community-based micro-insurance or experiments led by professional insurers) need to be reinsured by specialized organisms. In the current conditions of the market, they cannot reach the higher stage of reinsurance: world reinsurers or world financial markets. An element is missing in the chain. Had this element existed, the insurance contract would be immediately solvent whereas, right now, they are not; the insurers, and their possible reinsurers, can moderate their safety loading as soon

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as they know that they will not have to face the most disadvantageous eventualities. Thus, the gap is reducing between the amount of the necessary premium, according to the insurer, to guarantee his solvability and the sum that the populations are willing to pay... and this favours the idea of insurance. The more the idea of insurance is developing, the more you enlarge the basis on which risks are shared. We can then diminish the probability of having to use reinsurance.

Creating a world fund for the ultimate reinsurance of initial risks (*Planet Re*) seems very useful in terms of managing the risks, as a tool for development support. Its first function would be to financially stabilize a complete chain of insurance/reinsurance to the benefit of countries with low incomes. It would follow the scheme of risk management (share, transfer) that proved along time that it greatly contributed to the development of the current richest countries. A second function, also very useful to the ongoing process of development, would be to consolidate what already exists and to participate to the emergence of a genuine local insurance industry on a market of insurance which would progressively become economically viable.

To ensure the proper functioning of such a fund, the outgoing monetary flows have to be evaluated. By definition, this requires a precise definition of the risks that can be insured and it also requires determining rigorous rules to define the relationships between the fund and the first rank insurers or their reinsurers. Then, we would have to determine at which level the capital provision and the incoming monetary flows should be in order to respect the security threshold.

Different methods of funding could then be possible: public provisions, insurers' and reinsurers' contributions, private investors. Concerning the private investors, we could imagine that they would subscribe for shares of risk representation (following the scheme of catastrophe bonds, briefly called *cat-bonds* or weather derivatives) which have an interesting yield. The payment to the investors is made of a first share which corresponds more or less to the output of a risk-free investment; then, there is a second part to be added which comes from the reinsurance premium. With this yield spread, we can offer a high risk premium on an investment which would absolutely not be linked to other investments. This noticeably reduces the global risk of the portfolio.

We can also imagine that an attractive tax policy could be granted for the savings which put money into those shares. If the world reinsurance capacity can be financed with those attractive shares for the investors, the conditions are met so that we can use financial globalization in the service of poor countries (with a priority for the poorest persons who are victim of a disaster).

Finally, I simply suggest, to those people who wish to create a tax on financial transactions, a temporary derivation. It would be similar to the compulsory reserves of central banks but with an attractive payment relative to the taken risk. For example, we could temporarily leave a very small percentage of the sums that pass through the foreign exchange market within the world insurance fund. I don't support such a technique but it seems more acceptable to me than a simple taxation. Compared to a taxation of the financial transactions, this mechanism should be understood as an exchange of risks without a predatory nature. Consequently, it would be less damaging, compared to a simple taxation, in terms of vicious effects on financial markets and in terms of anti economical effects at the expense of the world economy in general and poor countries in particular.

**Jean-Michel DEBRAT** – In developing countries, the logic of taking risks is missing and this is a big part of the funding. When some development organisms take part in an investment fund without requiring a 15% yield, we can imagine a mechanism of participation to a contribution. And from the beginning, we could foresee some conditions to get out. If this mechanism is properly managed and if financial reserves increase, then the public reserve is not useful anymore: its job is done. The investor can mix financial products with different rates of risks to end up with a manageable global risk. This is the job of a development bank such as the AFD to bring its part into this division. What a development banker is asked to do is to bring what misses at the beginning: primary risk premium, supporting the long-term funding, granting additional bonus rates etc.

**"If the world reinsurance capacity can be financed with those attractive shares for the investors, the conditions are met so that we can use financial globalization in the service of poor countries, with a priority for the poorest persons who are victim of a disaster."**

Michel VATÉ

***Michel VATÉ, according to you, reducing the obstacles for the insurance should be an objective of the Public Development Aid (PDA). Could you tell us a little bit more about that?***



**Michel VATÉ** – I based this reflection on this idea that the use of insurance (health, damages, harvests etc.) is a precious help to the improvement of the individual-producers' fate. On a larger scale, it is also true for the development of communities. As a result, we have to seek under which local circumstances insurance is not used and we have to wonder what could be done to overcome this obstacle. That is why I think that there are two ways the PDA can take this into account: directly and indirectly. First, it can be a technical help but also—with some precautions—a financial help for insurance subscriptions. Then, indirectly, we could favour the spread of an insurance "culture" by systematically adding an insurance section in the PDA-financed programs.

**Jean-Michel DEBRAT** – We could imagine a private/public system which would participate to the building of a reserve of reinsurance.

**Michel VATÉ** – Yes, but the public share should not be the last resort. If we take the pattern of *cat-bonds*, the participation of the States is not the latest, the highest, but the next to last. The last share, which corresponds to the cumulated expenses of the most costly disasters, is allotted to the financial markets. Instead of considering that public funding is always possible, the system has to foresee that the extreme costs have to be evacuated towards the financial markets where they will be borne by people whose function is to take risks hoping to make money. This is the job that the investors do in the financial markets. The vocation of *Planet Re* is to issue securities on the world financial market which mission would be to cover the losses the contributing states would not have to pay for. Thus, we could limit the temptation of relying on one or several states which would always be there to be the "last resort payer".

**Your wish is that insurance grows in poor countries. What do you need most for that? Mobilization of the concerned governments? More voluntarism from rich countries and international organizations? More audacity from the insurance industrials?**

**Marc NABETH** – A wish? I do not think that we can talk about a wish but rather about what is at stake. Insurance and reinsurance keep evolving. Their actors act and react according to social, economic, geopolitical, and political mutations. And it is pretty sure that the interfaces between the public and the private sectors will soon take a new form and will contribute to new insurance stakes. And it is also true in our own societies. It is too general to talk about poor countries. Developing micro-insurance in a dense rural area or in Indian shanty towns is one thing; proposing micro-insurance in Zimbabwe, weakened by Mugabé's disastrous policy, is another. Poverty is not a bloc; micro-insurance neither.

To the voluntarism that you underlined, I would rather talk about pragmatism and about giving up the caricatures about "the poor" as a whole, reified and perceived as being infantile. I do not want to minimize the tragedy of vulnerabilities, but we have to admit that those populations with low incomes do not wait for us to manage risks and to organize themselves accordingly. The insurers have to prove how useful they can be and to get advantage of it to make profits that *in fine* will be profitable to everybody. A purely theoretical view? Not at all. A vast number of health micro-insurers, small mutual insurance societies already exist; and private structures with a bigger portfolio (for some of them, one million clients) are beginning to have significative financial capacities. Those who dare actually exist. We just can wish that they are right before everybody else.

**Jean-Michel DEBRAT** – I would like to come back to Michel Vaté's idea of a "missing link". On the one hand there is the link in construction; it is the best organization of the rural world. On the other hand there are the financial markets. The scale of the problem changes when you solve a problem of uncertainty posed to a society. Let's take the example of natural, and especially climatic, hazards. At first, the urgency prevails. This is a time for humanitarian organizations, the response to a distress and its effects (sanitary, food, logistic etc.). Then, there is the time of rebuilding. This is a time for organizations and international conferences, the building of medium and long-term programs etc. It is also the time for managing the considerable promises of donations that

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Marc NABETH



have generally been made—but not always held. The first period lasts weeks, the second lasts months and years. The implementation of a public mechanism of massive intervention in a region implies a two-year delay. If the funding of the catastrophe is well-thought in advance, it will not prevent the catastrophe, but it will accelerate the process of the managing of the aftermath. This is insurance. If in a given region, outside the initial logistical and medical problems, an insurance company gets involved and starts its growth, and if it gets reinsured at a higher level at one moment N-1 or N-2, this is what is best.

**Michel VATÉ** – Your question supposes that three types of actors get involved: local governments, rich countries and international organizations, and the insurance industry. We know that an insurance activity has to meet several conditions of economic solvability for the contracts to be viable: the policyholder must have an interest in subscribing to the coverage of the considered risk, and the insurer must be able to engage itself in covering this risk without jeopardizing its financial stability. Let's be realist: when the conditions are met, insurance exists, its products are largely diffused within the society, and an intervention from outside is not necessary. With this observation, we can draw the frontier between the North—which has largely benefited from the risk management tools in the last centuries—and the South where everything, or nearly, is yet to be done.

So, if we want to be realist, we have to admit that none of those three actors can, on their own, strengthen the insurance as a support for development. We will never totally replace local or international public intervention; especially in the case of a big catastrophe. But it would be more efficient if it could get rid of the burden of repairing the damages which could normally be borne by insurance; all the more since the legal and accounting details can be solved quietly, outside the emergency and the disorganization which go with periods of crisis. Compared to a bureaucratic procedure launched after the disaster, it can be a great advantage in terms of rapidity and effective targeting of the beneficiaries. But for this, all the actors have to fully play their roles, each in its own

register. If we had to give a priority order, I think that the first step would have to be made by international organizations and rich countries in the name of public aid for development. The response of the local governments will help to make the insurance credible in the eyes of the populations and viable in the eyes of the insurers. But the scheme is not sequential; I do not see how we could make progress in this domain outside a partnership i-e simultaneously.

***What does a structure such as the AFD can do to get to this solution that you both seem to favour around this table?***

**Jean-Michel DEBRAT** – The setting up of a favourable environment to the forming of an insurance market in developing countries is typically a subject for the public/private sector. The goals have to be set together and the constraints also have to be studied and solved together. A development bank such as the AFD is there to participate to such a private/public construction. This is our job.

**Michel VATÉ** – In my opinion there are two plans of action. The first, which is realist, is about multiplying experimental projects in order to refine the measurement of the risks and the strength of the constraints. Experiments must be used to corroborate our intuitions and our studies. The three of us, I think, would agree with the idea that insurance is not a luxury product but that there is a way to be found so that insurance can be affordable before a high level of economic development is reached. Initiatives by public or private sectional and transversal experiments (private insurers or enterprises) have to be launched. Today there are not enough experiments beyond what we can observe in the case of spontaneous development of insurance activities in a certain number of countries. Then, I think that it is possible to conduct an experiment of regional reinsurance in partnership with the insurance industry and the states. This would be a small scale pattern of the *Planet Re* system in favour of which I militate.

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Jean-Michel DEBRAT

The interview was conducted by Jean-Thomas LESUEUR, Director of Studies of the Thomas More Institute



**Jean Michel DEBRAT**, deputy director of the AFD (French Agency for Development), is the author of a study "Pour une politique européenne de développement" (Fondation pour l'innovation politique, September 2006).

**Marc NABETH**, senior consultant CGSI-consulting, micro-finance expert and Associate Fellow of the Thomas More Institute, is the author of "Micro-assurance. Défis, mise en place et commercialisation" (Paris, Argus de l'Assurance Editions, 2006). It was awarded the "grand prix du livre 2006" of the CHEA (Centre des Hautes Etudes de l'Assurance).

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