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Micro Life Insurance: A Panacea to the Problems of the Thai Pension System?

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Abstract

The purpose of this paper was to find out whether micro life insurance could be used as a solution to the problems of the Thai pension system. This paper has shown the problems of the current system and the extent to which micro life insurance could be used as a solution to these problems. This was done by analysing the characteristics and benefits of micro life insurance, and supported with examples from the global stage. The paper then moved on to suggest methods by which micro life insurance could be implemented in the larger Thai pension system, including the challenges to the implementation of such solutions and the way forward for the development of micro life insurance in Thailand, taking into account Thailand's own past experience and lessons from abroad.

Micro life insurance was shown to be a possible tool to solve a number of major problems of the pension system in Thailand in a number of settings. It is crucial to determine the roles micro life insurance can play in the overall pension system first, and then integrate micro life insurance into the whole system accordingly. There are five main ways in which micro life insurance can be integrated into the Thai pension system.

However, only certain types of micro life insurance can be used to achieve this purpose, and a number of obstacles must first be overcome. State subsidy can be used to increase the ability of micro life insurance in reaching a certain group of population, facilitate the income redistribution function of micro life insurance and enhance the real value of micro life insurance products. Further research is needed into areas such as state subsidy, product design and private-public relationship management.

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I would like to express my sincere gratitude to Cass Business School for the use of its facilities. I would like to thank Prof. Chris Parsons, director of the MSc in Insurance and Risk Management Programme, and Prof. Derek Atkins, my dissertation supervisor, for their advice and support. I would also like to thank my parents, Mr. Daniel Chen and Miss Sarah Green for their love and support.

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1. Executive Summary

This paper was intended for existing and potential micro life insurance providers in Thailand as well as the Thai government. It was structured to examine whether micro life insurance can be used to solve the problems in the pension system in Thailand. The paper started by investigating the current pension system in Thailand and found that the system is currently facing five main problems. These problems are the problem of sustainability, the problem of political intervention and fiscal burden, the low returns of the pension funds, the lack of portability and the exclusion of informal sector workers.

Solutions that have been proposed so far include the '500-baht old-age cash benefits', the National Savings Fund and the community-based social welfare funds. However, their effectiveness in reaching out to the poor, sustainability and financial viability are questionable. In addition, the Thai pension system still has a high level of fragmentation as there is no suggested measure regarding how each system will be consolidated in the future.

By applying the social protection perspective[1] (as supposed to the market-based perspective) of microinsurance, and analysing the characteristics and benefits of micro life insurance, supported with examples from the micro life insurance industry worldwide, the paper then showed the extent to which micro life insurance can be used as a solution to a number of major problems in the Thai pension system. However, only certain types of micro life insurance are suitable to be used to achieve this purpose.

The paper then moved on to suggest the means of implementation of micro life insurance in Thailand by taking into account lessons learnt from microinsurers globally, and Thailand's own experience with insurance for the low income market (the 'Aue Ar Thorn' project). Micro life insurance should be implemented taking into account the whole pension system of the country. There are five main ways in which micro life insurance can be integrated into the Thai pension system.

Regarding the implementation of micro life insurance, premiums must be priced carefully, taking into account the cost of providing the products in order to ensure the long-term financial viability of the products. Product designs must be able to meet the needs of the poor. Downscaled traditional life insurance products fail to serve the low-income market. The business model must be cost-efficient and effective in reaching out to the low-income market. At the present, micro life insurance industry in Thailand is still very young, and products are still limited to endowment and term life policies. The costs of offering micro life insurance can be reduced greatly when products are offered on a group basis through third-parties, and premium collections being supported by the use of technology such as mobile money and ATMs, electronic bank account deduction and linked payments.

At the present, the best microinsurance business model, from the perspectives of governance, efficiency and cost, has been proposed to be the partnership model. This model should be equipped by the use of value-chain analysis to determine the role suitable for each party. However, the roles of NGOs, MFIs, community-based organisations and religious organisations in Thailand are relatively insignificant and must be first encouraged.

The paper concluded that micro life insurance is a possible tool which can be used to solve a number of problems of the pension system in Thailand under a number of settings, but a number of obstacles must be overcome first. The paper then ended by presenting challenges and the way forward for the development of micro life insurance in Thailand.

Further research is needed for the designing of a suitable mechanism for state subsidy, in order to increase the ability of micro life insurance in reaching a certain group of population, facilitate the income redistribution function of micro life insurance and enhance the real value of micro life insurance products. More work is required in designing innovative micro life insurance products that can best serve the needs of the poor, as well as in designing a suitable public-private relationship management mechanism in order to ensure the autonomy of micro life insurance programmes from the social protection perspective.

2. The Current Old-Age Pension System in Thailand

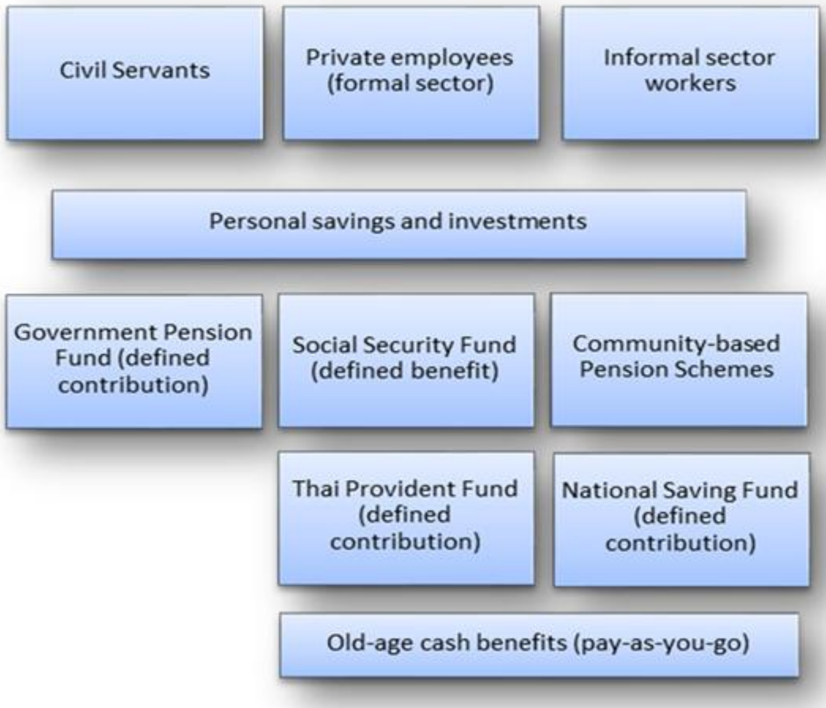
2.1 Overview of Thailand and its Current Pension System

Thailand has entered its ageing phase[2] at a rapid pace. Presented with a longer life span[3] and lower birth rate, the ratio of working adults to elderly is expected to decrease dramatically to around 4:1 in 2020. Many elderly are still working after retirement[4] in order to sustain themselves financially . A survey conducted by the National Statistics Office in 2010 showed that 3.1 million senior citizens, out of a total of 8 million, are still working to sustain themselves. Within this group, 90.3 per cent are informal sector workers (PRD, 2011).

Old-age pension is a type of social protection[5] provided by a society to its members to compensate for a significant decrease in income after retirement. Social protection includes both public social security schemes and private schemes, such as mutual benefits societies, and occupational pension schemes, where contributions are not fully driven by market forces (Jacquier et al., 2006).

The current pension system in Thailand comprises of a number of separate systems covering different occupational groups, namely (1.) the Government Pension Fund for civil servants; (2.) the Social Security Fund and Thai Provident Fund for private employees in formal sector; and (3.) the National Savings Fund (to be implemented), the old-age cash benefits and community-based pension schemes for informal sector workers[6] (see appendix 1 for details of each system).

Diagram 1: The Summary of the Current Pension System in Thailand



Source: Dr. Worawet Suwanrada, the Old-Age Security System in Thailand, Bank of Thailand Presentation, 19 August 2009

2.2 Problems with the Current Pension System

One of the most critical problems facing the current pension system in Thailand is the problem of sustainability, mainly as a result of an ageing population. Secondly, there are problems of political intervention and fiscal burden, as the system is prone to be used as a political tool for the government to gain votes. Thirdly, pension funds have low returns. Fourthly, the differences in the pension systems for each population group (defined benefit/defined contribution/pay-as-you-go) lead to a lack of portability across occupational groups. Lastly, the current pension system is facing with a problem of the exclusion of informal sector workers.

2.2.1 The Problem of Sustainability

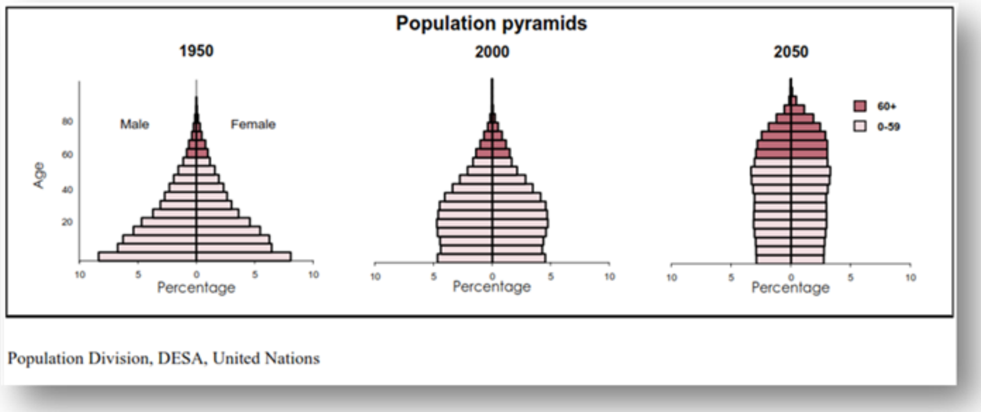
The ageing population puts great pressure on both the social and economic structure of Thailand. An increasing number of senior citizens and a decreasing working population (see diagrams 2 and 3 below) inevitably lead to a decrease in tax revenue and an increase in fiscal spending, especially on social welfare for the elderly, such as old-age pensions.

Diagram 2: The Summary of the Thai Demographic Changes

Year	2010	2015	2020	2025	2030
Population (million)	67,313	68,980	70,100	70,651	70,629
The elderly 60+ (%)	11.9	14.24	17.51	21.22	25.12
Working adult (%)	67.59	67.11	65.87	63.78	61.38
Working adult per an elderly	5.68	4.71	3.76	3.00	2.44

Source: The Office of the National Economic and Social Development Board, 2012

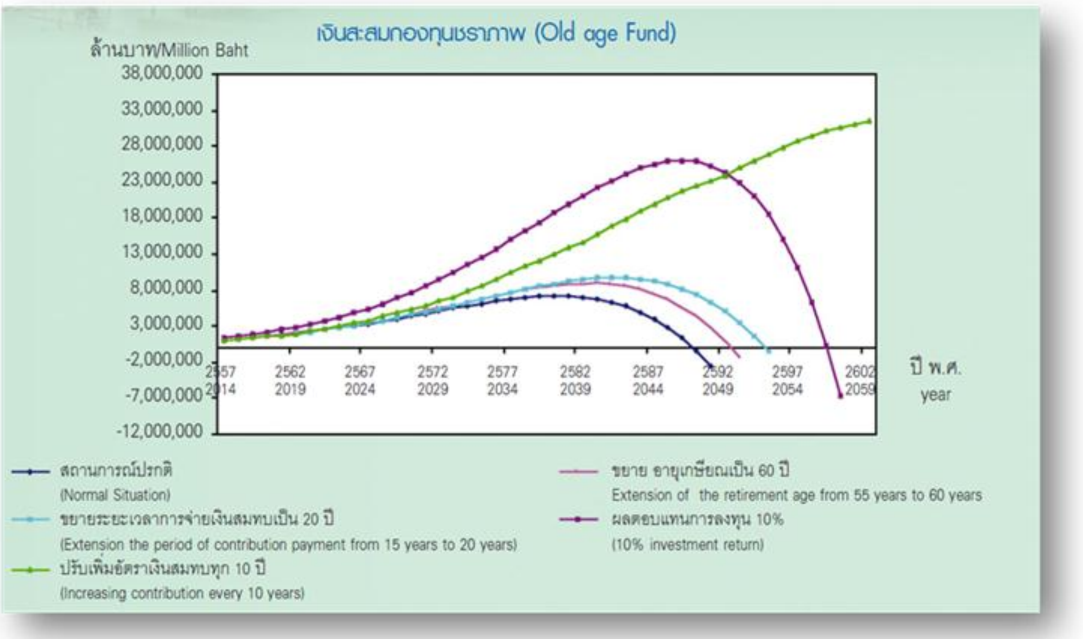
Diagram 3: The Population Pyramids of Thailand (year 1950, 2000 and 2050)



Source: The Population Division, DESA, the United Nations, 2002

The sustainability of the Old-Age Social Security Fund is at risk. At the end of 2010, the size of the fund was 822,701 million baht. Benefits paid out are high compared to member contributions. In 2010, the total number of the insured persons in the Social Security Fund accounted for 25.49 per cent of the employed workforce or 14.36 per cent of total population (SSO Annual Report, 2010). Pensions for around 600,000 members will be paid out for the first time in 2014. The number of members qualified as pension recipients will rise dramatically to 4 million persons in 2047. Under normal circumstances, the fund can only be expected to continue operating until 2047 (see diagram 4). Suggested measures such as extending retirement age, increasing contribution rate and increasing rate of return to 10 per cent would only prolong the life of the fund for another 10 years (SSO Annual Report, 2007). Besides the aging population, other factors such as weak labour unions, corruption, conflict of interest and the flaw of the Social Security Act 1990, which allows 10 per cent of the fund to be used in administration expenses without any need for parliament approval, all contribute to the stability problem of the fund (Parama, 2011). Serious reform is urgently needed in order to prevent the fund from becoming unsustainable, which would ultimately require a bail out by the government.

Diagram 4: The Sustainability Crisis of the Old-Age Fund



Source: Social Security Office Annual Report, 2007, pp. 94

2.2.2 The Problem of Political Intervention and Fiscal Burden

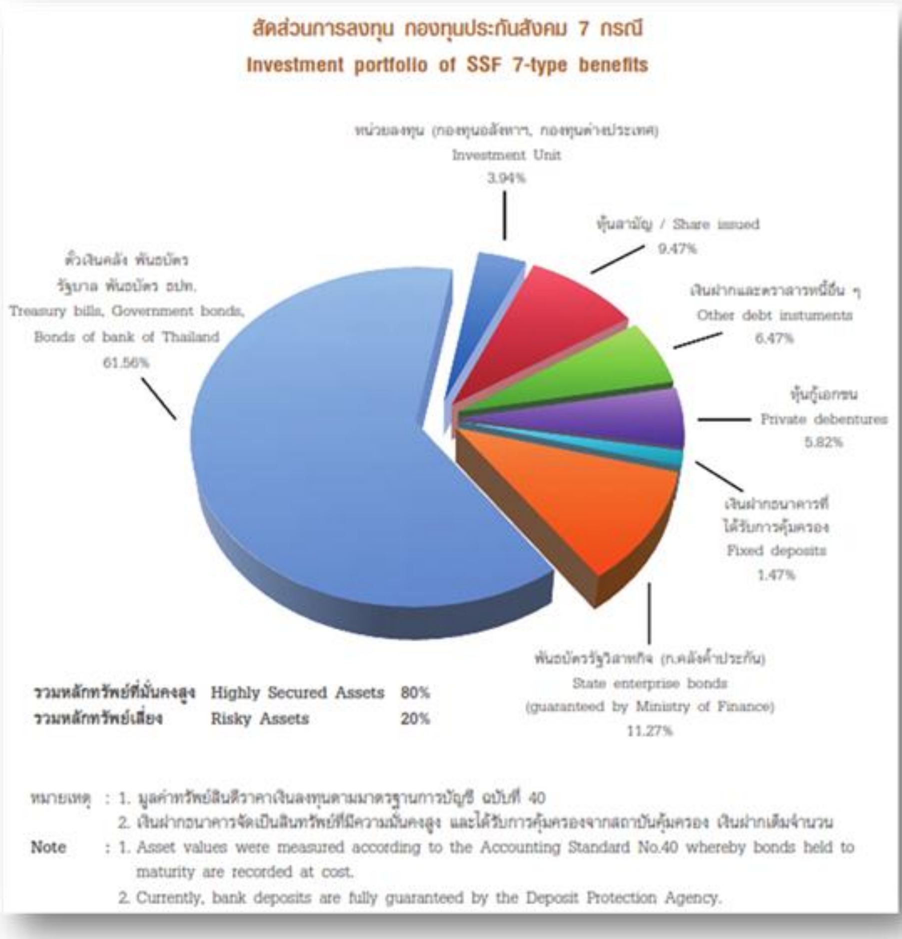
Political pressure increases the fiscal burden, since politicians, whose short-run objectives are to gain popularity, will pressure the government to issue policies without considering their viability and the long-term impact. Unlike many countries where the low-income group is often neglected by the government as they are not well organised and thus unable to put pressure on their governments (Deblon et al., 2012), this group of people form a majority of Thais and thus are increasingly prone to be used as a political tool for the government to gain popularity. For example, the old-age cash benefits are paid to all elderly who do not receive any pension from the government, and these are direct fiscal expenses with no legislative support. The policy is very likely to be used as a political tool by a government to gain popularity. Similarly, politicians wanting to gain votes will put pressure on the government to step in to rescue poorly managed pension funds.

An ageing population is indeed a significant challenge for the government and presents the problem of great fiscal burden. According to the study of the G20 countries by the IMF, government spending on the care of elderly is ten times higher than the fiscal stimulus package implemented during financial crisis (IMF, 2009). An ageing society is a time bomb for the government in the future. The fiscal burden will rise sharply as the country is facing a rising number of the elderly. Thus if no measures are taken, the problems of the pension system in Thailand will continuously present an increasing pressure on fiscal spending, which could lead to a severe public debt problem in the future.

2.2.3 The Low Returns Problem of Pension Funds

The low returns of pension funds negatively contribute to the sustainability of the funds, and increase the pressure on fiscal spending, as the funds may require government bail-outs in future. Pension funds have low returns because their investment opportunities are limited in an attempt to maximise the stability of the fund (Suwanrada, 2009). For example, the Social Security Fund can only invest in an investment framework approved by the Social Security Committee and the Ministry of Finance. The chart in Diagram 5 shows that a large proportion of the portfolio is invested in highly secured assets. Only a very limited proportion of the fund can be invested in foreign assets (foreign investment is only a small part within the 3. 94 per cent investment unit). This distorts the fund's ability to fully diversify risks. Additionally, with no employee choice, low risk low return investments are chosen because of a lack of understanding among the Social Security Fund members regarding investments.

Diagram 5: The Investment Portfolio of the Social Security Fund



Source: the Social Security Office, Annual Report, 2010

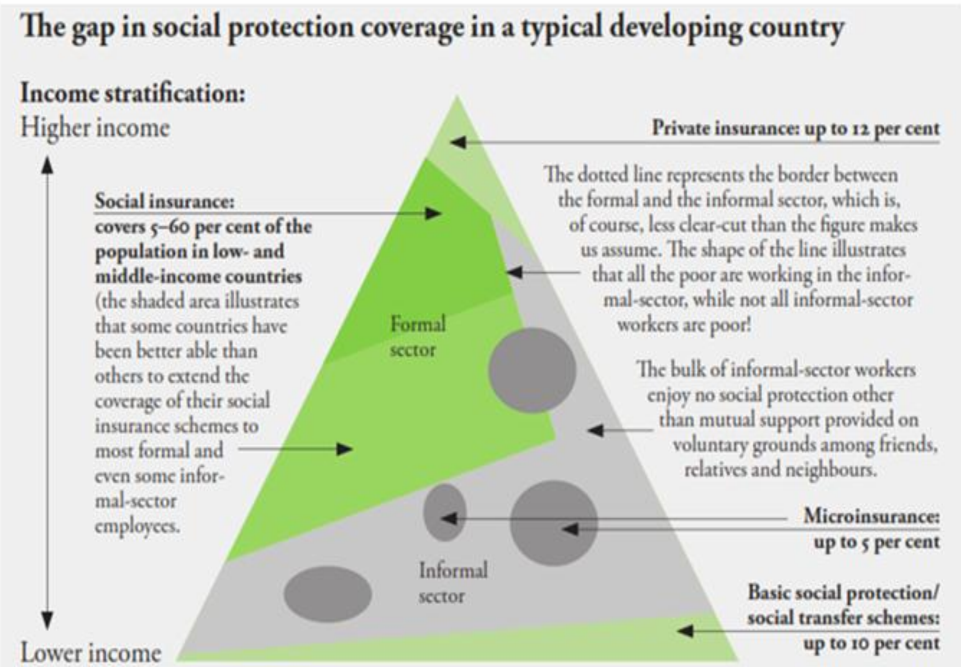
2.2.4 The Lack of Portability

Despite the appearance that all groups have their pension systems, the differences between the systems lead to a lack of portability across occupational groups. At present, the pension system in Thailand is highly fragmented. Hence, there is no flexibility when workers change their job sectors, and as a result, they can be left without any system to support them. For example, the Government Pension Fund for civil servants is based on the principle of a defined contribution. The Social Security Fund and The Thai Provident Fund for private employees in formal economy are based on the principle of a defined benefit and a defined contribution respectively. Informal sector workers currently have no pension system to support them (see section 2.2.4). When a civil servant changes his/her occupation to private sector, some benefits from his/her contributions are distorted. The case is even worse when workers in a formal economy move to the informal sector because they will be left with no pension system to support them at all (Suwanrada, 2009).

2.2.5 The Exclusion of Informal Sector Workers

On the world stage, one of the assumptions underlying social protection schemes was that the formal sector would increasingly expand its foothold in the traditional economy. Thus an increasing proportion of the labour supply would be covered by social security. However, it has turned out that the informal sector is where most jobs have been created in the past decade (Jacquier et al., 2006). Diagram 6 shows the exclusion of the informal sector in a typical developing country.

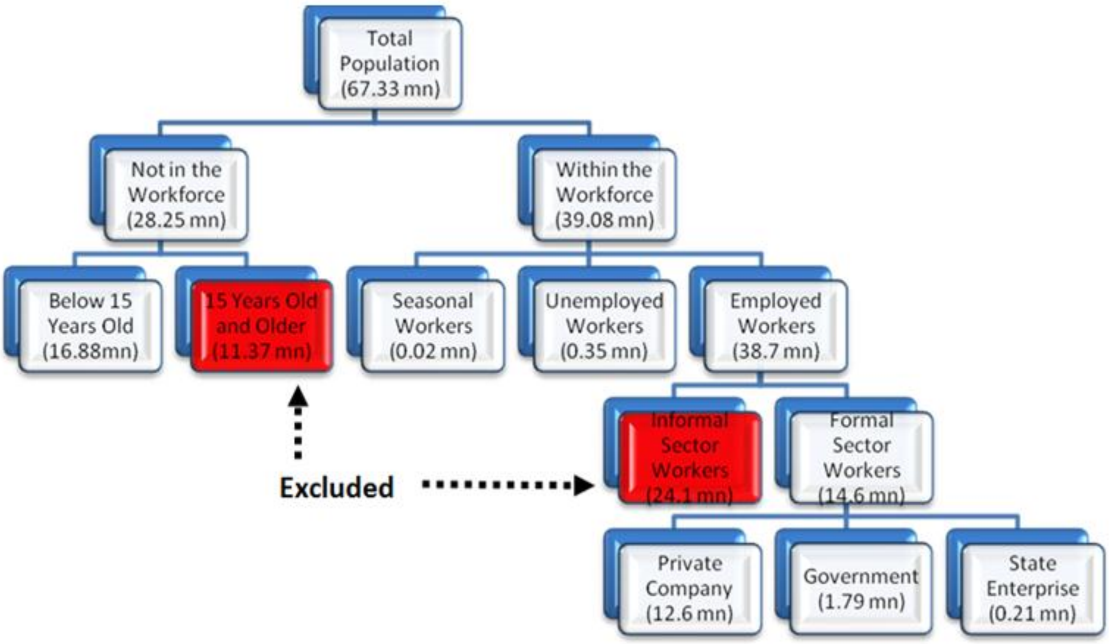
Diagram 6: The Gap in Social Protection Coverage in a Typical Developing Country



Deblon et al., the Potential of Microinsurance for Social Protection, 2012

In the case of Thailand, the exclusion of the informal sector workers, and people who are not in the workforce, is another critical problem of the current pension system. The coverage of the current system is limited to the minority of the total population. Civil servants are covered under the Government Pension Fund. Formal sector workers are entitled to the Social Security Fund and the Thai Provident Fund. Informal sector workers do not have any formal pension systems to fall back on. This excluded group forms the majority of Thais and it includes both the rural and urban poor. In 2010, 24 million Thai workers were in the informal sector, representing 62 per cent of the total workforce (World Bank, 2011). Diagram 7 shows that around 35 million Thai people (53 per cent of the total population) were not covered by any pension system (The Ministry of Finance, 2012). The lack of coverage by and accessibility to the current pension system calls for significant reform.

Diagram 7: Population Structure and Pension Coverage (Data as of 2010)



Source: the National Statistic Office, the Social Security Office, ILO, the Ministry of Finance

2.3 Current Solutions Adopted by the Thai Government

Presented with the above problems, three policy solutions were proposed by academics to the Thai government. The three options were: providing old-age cash benefits financed by tax revenues; establishing a contributory public pension scheme and promoting the community-based social welfare fund (Sakunphanit et al., 2011). Others initiatives include extending the coverage of the current Social Security Fund to the informal economy.

2.3.1 Old-Age Cash Benefits Financed by Tax Revenues: The '500-baht old-age cash benefits'

The '500-baht old-age cash benefits' programme was first introduced by the Thai government in April 2009. The cash benefits are given to all elderly who are not receiving any income from the government (see diagram 8). The programme is under heavy criticism because effectively only a small number of the poor, most of whom are informal sector workers, were reached by such measures (see diagram 9). In addition, such a measure is prone to be misused by the government to gain popularity without consideration of the long-term result of heavy fiscal spending, which can increase the severity of the public debt problem. The scheme is also at risk of being under-budgeted. New taxes are needed since current tax revenues are inadequate to support the programme (Sakunphanit et al., 2011). Additionally, given current average income of 6,720 baht/month, 500 baht old-age cash benefit/month is a very low amount as it is only equivalent to 7.4 per cent of the average income (World Bank, 2011). 500 baht is too low as it was around one-third of income that would have qualified someone as being under the national poverty line in 2010 (Sakunphanit et al., 2011).

Diagram 8: Summary of the '500-baht old-age cash benefits' Programme

Summary

Target group:	Every elderly Thai person (60 years of age or older) who is not in elderly public facilities or does not currently receive income permanently (i.e., government pension recipients, government employed persons).
Target population:	6.87 million (approximately 95% of the elderly); Number of registered elderly: 5.65 million (82.2% of target population).
Benefits:	In-cash benefits, 500 baht (31.4 constant 2005 PPP $) per month.
Delivery process:	In principle, the elderly or the authorized representative must register with the local authorities where he or she has inhabitancy registration. The qualified recipients can choose among four methods: • to receive cash directly from the local authority office; • to designate an authorized representative to receive cash directly from the local authority office; • to have the pension transferred to the elderly person's bank account; • to have the pension transferred to a bank account of an authorized representative. However, the elderly must bear the fee for the bank-account transfer if they do not have a Krungthai Bank account.
Total expenditure (fiscal year 2010):	33,917 million baht or 2,129.1 constant 2005 PPP $ (approximately 0.37% of GDP).
Source of funding:	General tax revenue.

Source: Sakunphanit et al., 2011, Sharing Innovative Experiences, Volume 18: Successful Social Protection Floor Experiences, ILO – SU/SSC (UNDP) – National Experts, 2011, pp. 401

Diagram 9: The Effectiveness and Accessibility of the '500-baht old-age cash benefits'

	Accessibility to services: Non-poor[7] (% of total receivers)	Accessibility to services: Poor(% of total receivers)	Accessibility of the poor (% of total poor)
The '500-baht old-age cash benefits'	80.4	19.6	38.1

Source: the National Economic and Social Development Board, 2007

2.3.2 Contributory Public Pension Scheme: The National Savings Fund

Many studies (see Pananiramai, 2003; Chandoewit, 2006; Patamasiriwat, 2007; Chandoewit et at., 2008; and Suwanrada, 2009) were conducted to support the establishment of a contributory public pension scheme (Sakunphanit et al., 2011). This led the Ministry of Finance to establish the National Savings Fund (see details of the fund in appendix 1) to serve as a supplementary pension scheme for people who are currently excluded from the current pension system in Thailand in addition to the '500 baht cash benefits'. There are around 35.5 million persons (53 per cent of the total population) who are the target of the National Savings Fund (see appendix 1). However, the fund's establishment has been very slow, and it has been subjected to much criticism on sustainability and public debt problems[8]. The fund was scheduled to open for membership subscription in May 2012. However, the date has been postponed[9] and, at the present, informal sector workers are still without a system to provide the security for their old-age retirement.

2.3.3 The Community-Based Social Welfare Funds

The idea of community-based social welfare funds was promoted to reduce the dependency on public welfare with an emphasis on the old-age pensions. The programmes are being implemented in many provinces in Thailand such as Bangkok, Lamphang, Trat, Khonkaen and Songkhla (see diagram 10). The programme structure and benefits provided vary from one community to another. Many academics emphasised the role of the scheme as the centre of old-age benefit expansion (Sakunphanit et al., 2011). However, such schemes have a number of drawbacks. Since there is no inter-regional insurance function between community funds, as each fund is managed independently, the financial viability of the fund depends largely on the internal conditions, such as community size and age structure, returns and management of the fund (Suwanrada, 2009).

Community-based pension schemes, such as one-baht a day saving group, are also at the risk of poor management and a lack of sustainability. Despite their limited size, members will be in great difficulty if these funds cannot fulfil their promises to pay for members' pensions.

Diagram 10: Benefit Package of the Community-Based Social Welfare Fund in Songkhla Province

Type	Details
Maternity pay	• For newborn baby: 500 baht per birth (limited to 1,000 baht/year); • For mother: medical expense subsidy of 100 baht/night (limited to 5 nights/birth).
Medical expense subsidy	100 baht/night (limited to 10 nights per year).
Education loan	30% of educational expenses.
Funeral expense subsidy	2,500 baht-30,000 baht (according to contribution periods) 180 days - 2,500 baht / 1,460 days - 15,000 baht 365 days - 5,000 baht / 2,920 days - 20,000 baht 730 days - 10,000 baht / 5,840 days - 30,000 baht
Debt clearing for the deceased	Maximum 30,000 baht (limited to debt to local/community savings organization and continuously and punctually repaid debt).
Savings reward for the deceased	Reward of 50% of the deceased's savings (limited to 15,000 baht and local/ community savings organization account; 100 baht monthly paid to the surviving family).
The needy	Fund will pay contribution as his/her representative.
Contribution-collector compensation	130 baht/collection time (30 baht will be used as daily contributions of the collector to the fund).
Pension	300 baht-1,200 baht/month (depending on contribution period) 15 years - 300 baht/month / 40 years - 800 baht/month 20 years - 400 baht/month / 45 years - 900 baht/month 25 years - 500 baht/month / 50 years - 1,000 baht/month 30 years - 600 baht/month / 55 years - 1,100 baht/month 35 years - 700 baht/month / 60 years - 1,200 baht/month

Note: US$1 = 32.324 baht (as of first quarter of 2010) and 1 constant 2005 PPP $ = 15.93 baht.

Source: Table 3, Suwanrada (2009), p. 57.

Source: Sakunphanit et al., 2011, Sharing Innovative Experiences, Volume 18: Successful Social Protection Floor Experiences, ILO – SU/SSC (UNDP) – National Experts, 2011, pp. 406

2.3.4 Extending the Current Coverage of the Social Security Fund

Another initiative from Mr. Phadermchai Sasomsub, the Minister of Labour and Social Welfare, is for the Social Security Fund to extend its current coverage to informal sector workers, such as work-at-home workers, taxi/motorcycle drivers, daily workers, street vendors, housemaids, general contractors and others. Two options would be provided, with varied contribution and (corresponding) protection levels[10]. However, extending the current structure of pension system employed in the formal economy to informal sector workers who have irregular and unstable income is highly challenging. This is because the pension scheme for people in the formal sector relies on the relationships and shared contributions between the employers and employees. Unlike formal sector workers, informal sector workers cannot afford to pay regular contributions, and there is no formal employer to contribute to their pension schemes (Churchill, 2006). In addition, the existing pension systems encounter with many administrative difficulties to monitor the enrolment, premium collection and claims payment of informal sector workers (Deblon et al., 2012). According to the Thai Labour Solidarity Committee, extending the current coverage of the Social Security Fund also creates a double standard between formal and informal workers in their capacity to participate in and receive benefits from the fund. In addition, such measures will increase the severity of the sustainability problem the fund is currently facing (TDRI, 2012).

3. Microinsurance Worldwide

3.1 Definition of Microinsurance

3.1.1 Theoretical Definition

The term ‘microinsurance’ has been widely used by academics, insurance companies, governments and organisations around the world in recent years. Microinsurance is theoretically defined as: insurance with low premiums and low coverage, for the poor. The simple and accessible nature of microinsurance distinguishes it from traditional insurance products (Churchill, 2006). The theoretical definition of microinsurance, despite being a sound concept, is insufficient for insurance practitioners to adopt in practice (Churchill, 2006). For example, there is no consensus regarding which section of the poor should be classified as the target market of microinsurance. It is unclear how poor people have to be in order to qualify for microinsurance products. There is also a lack of clarity on how low premiums and coverage have to be in order for the product to be classified as microinsurance.

3.1.2 The Target Market of Microinsurance (Who are the poor?)

Defining the target market of microinsurance as the poor or the low-income group is theoretically correct. However, this definition is insufficient in practice because not all the poor are the same (Churchill et al., 2012). There are many sub-groups within the low-income group such as the working poor, the ‘poorest of the poor’, the urban poor, the rural poor. The ‘poorest of the poor’ are people at the bottom end of an income distribution pyramid (see diagram 14 for an example of the 'poorest of the poor' group and the income distribution pyramid in the case of Thailand). As each of these groups has varied needs, microinsurance products must be tailored to meet their specific demand. Distribution channel and premium collection system must also be carefully chosen in way that suitable and applicable for each group.

The answer to the question of how poor do people have to be to qualify for microinsurance products varies country by country. However, in general, the target market of microinsurance is the group of people who are excluded from mainstream commercial and social insurance schemes. Examples include low-income workers in informal economy. They are not eligible to participate in mainstream social protection programmes, and have no access to traditional insurance products that suit them. This is because offering an insurance policy, even for a small sum insured, to this group of people with irregular and unpredictable income presents a great challenge (Churchill, 2006).

The lack of a definition which can suitably express the actual workings of microinsurance and a clearly defined target market of microinsurance, as well as inadequate market demand research, led many microinsurance providers to offer products which failed to match the demand of the poor.

3.1.3 Operational Definition

The definition of microinsurance is becoming more and more operational in recent years (Churchill et al., 2012) as microinsurance providers started to realise that it is highly necessary to define clearly the target market of microinsurance and their demands in order to provide microinsurance products that meet their needs instead of just providing them with a smaller version of the currently available traditional insurance products.

> *"The term microinsurance is used to emphasise the importance of understanding the needs, preferences and characteristics of this target group: the low-income household, the working poor and the under-served."*
>
> *Churchill et al., 2012, pp.10*

The definition of microinsurance will vary among nations and corporations because it should be defined in a manner that is responsive to their objectives (Churchill, 2006). The four main considerations which must be taken into account when forming an operational definition of microinsurance are the target group, the products offered, the type of microinsurance provider and the distribution channel used (Churchill et al., 2012). Deriving a clear operational definition of microinsurance and defining the right target group are keys to the successful implementation of microinsurance.

> *"Microinsurance can be defined according to target group, product definition, provider definition, distribution channel. As all of these have pros and cons, a mixed approach considering the concept of serving the low-income market, coupled with a quantitative product definition and allowance for provider and distribution types may be most appropriate."*
>
> *Churchill et al., 2012, pp.9*

3.1.4 The Two Faces of Microinsurance

Microinsurance can be viewed either from a social protection perspective or a market-based perspective. The former focuses on the role which microinsurance can play to extend social protection to the poor who are excluded from social security programmes. On the other hand, the latter focuses on extending current business models to serve the poor profitably and sustainably (Churchill, 2006). The social security approach and market-based approach lead to different target markets of microinsurance. The target market of microinsurance under the market-based approach is the working poor with small incomes in excess of consumptions, not the 'poorest of the poor' group whose incomes rarely cover their basic needs in lives (Churchill, 2006).

Diagram 11: The Two Faces of Microinsurance

Source: Craig Churchill, Protecting the Poor – A Microinsurance Compendium, 2006, pp.16.

From the social protection perspective, microinsurance is not only a tool for the poor to manage their risks but also an instrument to extend social protection to people who are originally excluded from conventional social security programmes. Given the limited financial resources and capacity of a government to manage a social security system, microinsurance helps provide additional resources for both a greater coverage and a better quality of social protection schemes. Microinsurance can be incorporated into social welfare programmes and perform functions such as income redistribution through either internal cross subsidies or by directing state subsidies to the poor. Additionally, microinsurance can also be used to empower the poor and encourage them to participate in the areas of product design, accessibility and organisation structure of the schemes (Jacquier et al., 2006).

Government participation is of great importance in assisting microinsurance to work effectively in the social protection perspective. For example, in some countries the boundary between market and government driven initiatives is becoming less clear. There are increasing trends of public-private partnerships (PPPs) and policymakers are becoming more and more willing to subsidise premium for the vulnerable poor (Churchill, 2006).

> *"Stand-alone, self-financed microinsurance schemes have major limitations on their ability to be sustainable and efficient social protection mechanisms capable of reaching large segments of the excluded populations. Their potential to extend social protection is increased when governments include them in national social protection strategies, linking them to other social protection components to create a progressively more coherent, efficient and equitable system. "*
>
> *Jacquier et al., Protecting the Poor – A Microinsurance Compendium, 2006, pp.46*

The involvement of a government in microinsurance arena is varied across many countries. In India, the government has been vigorously involved in microinsurance provision. Insurance companies have a legal obligation, as required by a national social inclusion framework (2002), to allocate a certain amount of their businesses towards microinsurance. Additionally, India has established its own micro health insurance programme, Rashtriya Swasthya Bima Yojana. The government also subsidises many other microinsurance products. In addition to a one-off premium subsidy, the government can help improve the efficiency of the microinsurance industry by funding national ID cards to increase the speed of customer identification and decrease fraud –detection costs, and maintain a good database to assist in product development and administration by an insurance company.

3.2 Current Micro Life Insurance Regimes Worldwide

There are a variety of micro life insurance types being offered around the globe. The main types of micro life insurance regimes being offered worldwide are credit life insurance, life annuities, endowment policies, term/whole life policies, savings completion insurance and life savings insurance (see appendix 2 for a table summary of micro life insurance regimes worldwide). It is important to note that when talking about micro life insurance from a social protection perspective, credit life policies are commonly regarded as poor quality products in the sense that they provide no value in extending social security system to the poor (Jacquier et al., 2006; Roth et al., 2007). Some of these policies are group-based policies while others are individual policies. Some of them are being offered on a compulsory basis while others are being offered on a voluntary basis. Compulsory group-based policies are often being offered through MFIs. More and more innovative products are being introduced to better serve the poor. An increasing number of policies are offering a very flexible premium payment structure. For example, premiums can be paid monthly, quarterly, semi-annually, or annually. According to a study by Jacquier et al. (2006), Micro life insurance is most prevalent in Bangladesh, the Philippines, India and Nepal.

The future of microinsurance is promising. It is a relatively new and untapped market. The fact that big international insurance companies such as Axa, Allianz and Prudential are getting more and more involved in the provision of microinsurance shows a positive trend for this industry (Wharton, 2010).

"The number of microinsurance clients increased from 80 million in 2007 to 135 million in 2010."

Michael McCord, Director of Consultancy, U.S. Microinsurance Centre

4. Micro life insurance in Thailand

4.1 Microinsurance Preface

4.1.1 The ‘Aue Ar Thorn’ Insurance

Prior to the launch of microinsurance in Thailand, The one-baht a day insurance program for low-income individuals was introduced in September 2003 under the name ‘Aue Ar Thorn’, which means generosity. The program was implemented as a part of the ‘Aue Ar Thorn Project’ which aimed to provide assistance to the poor in various aspects of their lives (e.g. accidents, death and injury, with protection at varied levels). The ‘Aue Ar Thorn’ insurance aimed generally to assist low-income households by providing them with protection against unfortunate events. The programme was offered in five different regimes with varied premiums and coverage (see appendix 3).

4.1.2 Business Model

Initially, ‘Aue Ar Thorn’ insurance products were mainly distributed through village chiefs. This traditional distribution channel was both time-consuming and inconvenient. Under this model, the village chiefs had to collect all relevant data and supporting documents, and submit them at the district level, after which the matter would be passed on to the provincial level. From there, the matter would then be passed on to Thai Reinsurance Public Company Limited, the sole administer of the programme. At this stage, insurance policies would be issued to the policyholders and the covers would be activated.

A new business model was introduced in 2005, adapted from the one used for prepaid telephone cards in Thailand. The ‘Aue Ar Thorn’ insurance products were distributed, in the same form as a telephone card, through a large number of different avenues, which had the effect of increasing the accessibility of the programme. Examples of distributors include village chiefs, insurance company branches, Road Accident Victims Protection Company Limited and its branches, the Bank of Agriculture and Agricultural Co-operatives, the General Insurance Association, the Life Assurance Association, insurance volunteers, 6,927 branches of convenient chain stores such as 7-Eleven, DTAC shop, ‘Ran-Rak-Ban-Kerd’ local franchise stores and utility bill pay-points across the country. Under the new model, a call centre was used to support these distribution channels[11]. After purchasing insurance policies from these local shops, policyholders must call the call centre to register and activate their policies. This model made it more convenient for every party involved. Not only had it increased the accessibility of rural villagers, the telephone card model also made it more convenient for them. This is because the process was simplified, and the number of steps involved and time consumed were reduced. Pay-outs were made through the Bank of Agriculture and Agricultural Co-operatives branches nationwide[12].

The ‘Aue Ar Thorn’ insurance programme also offered a special policy for students, tailored such that the premium and coverage were specially designed to ensure suitability for students (see appendix 3). The insurance product was distributed through schools. Interested students contact their schools and submit a copy of their student ID card and a parental consent form, together with their premiums. Schools then submit a name list of students and their premiums to Thai Reinsurance Public Company Limited, who then pass that on to insurers. Policies will be issued and sent back to the schools so that they can be distributed to the students. As of 4 June 2004, there were a total of 62,785 policyholders of student insurance programme from 296 schools with a total premium of 3,139,250 baht.

4.1.3. Results

The programme was well received among low-income households. As of December 2003, there were 286,707 policies sold[13]. However, participated insurance companies[14] sustained many years of losses after the launch of the programme. This was mainly because product pricing was too focused on making insurance products accessible to the poor. This was due to government pressure on insurers to launch the programme. Therefore, premiums were not priced carefully taking into account the cost of providing the products to ensure its long-term financial viability. In response to the problem, the number of regimes was reduced to only two[15], in July 2007. After this change, the loss ratio was reduced to 98 per cent, a great improvement over previous loss ratios, which exceeded 100 per cent. However, such loss ratio was still considered relatively high compared to other insurance products available in the market. In 2008, the number of insurance companies participating in the programme dropped from 50 to 27 companies. As a result, the 'Aue Ar Thorn' insurance programme was terminated in January 2009.

Despite its early termination, the 'Aue Ar Thorn' insurance programme sparked the idea of low premium and low coverage insurance for the poor. Most importantly, the program proved that there is demand for insurance products among the low-income group in Thailand. This presents an opportunity for the development of the Thai microinsurance market. The issue of incorrect premium pricing, which was the main reason for the failure of the programme, can be addressed without taking away the main characteristic of the program: its being for poor people. With thorough market research and an improvement in product design, a similar insurance program for the low-income population could be successful. Products must be priced carefully taking into account the cost of providing the products to ensure its long-term financial viability. In addition, the telephone card model, including the distribution channels, employed under the 'Aue Ar Thorn' insurance programme was proven to be effective in reaching out to the poor. These are valuable lessons which the Thai microinsurance industry can learn from.

4.2 Definition of Microinsurance in Thailand

According to the Office of Insurance Commission, the regulator of insurance in Thailand, microinsurance in Thailand is defined as insurance policy with low premium (no more than 500-1000 baht) and low coverage for low-income people. With these features in consideration, the Office of Insurance Commission has approved some standard microinsurance policy designs and wordings for both life and non-life microinsurance businesses (see section 4.4). However, there is no specific definition of the target market of microinsurance in Thailand.

4.3 Situation and Development of Micro Life Insurance in Thailand

4.3.1 The Insurance Development Plan

In Thailand, microinsurance was first mentioned, as one of the means to promote value creation of the insurance industry to the Thai economy and society, in the 'Insurance Development Plan 1'[16]. The plan addressed the concern that competition and selective marketing can limit an access to suitable insurance by the low-income group. As a consequence, an objective to promote microinsurance was written under the second mission in the plan. For the government and the insurance regulator, it is critical to ensure that all citizens benefit from the development of insurance industry in Thailand (Wanglee, 2006).

The 'Insurance Development Plan 2' (2010-2014) consists of four main pillars. One of the pillars is to increase confidence in, and awareness of insurance, together with making insurance accessible for all people. One of the goals set to achieve in 2014 is for the growth rate of microinsurance to reach 20 per cent from 2010. Microinsurance is promoted as one of the tools used to increase the accessibility of insurance to all Thais. In addition, the plan also stated an objective to reform insurance laws and regulations in order to support the growth of microinsurance especially regulations regarding to marketing license and distribution channel of microinsurance.

4.3.2 Current Microinsurance Environment in Thailand

The current regulatory environment in Thailand is very supportive for the development of microinsurance. Many rules are being implemented to increase the accessibility to microinsurance among the grass-roots. Standard microinsurance policy designs and wordings are classified differently from traditional insurance products. There is a separate license for microinsurance intermediaries whose requirements are less complicated than traditional insurance license. This rule serves to encourage community members or insiders to sell microinsurance to their own people because they are in a better position than outsiders to sell microinsurance products. They are familiar with people in the communities and thus it is easier for them to build trust with the locals. In addition, they are in a better position when it comes to determining and satisfying the local needs than people from the outside.

4.3.2.1 The New Insurance Intermediary License

The new licensing regulation for insurance intermediaries, which took effect in January 2012, aims to increase the accessibility to insurance of all Thais, with an emphasis placed on microinsurance. The new regulation allows any corporation wanting to do insurance intermediary business along side its main business, to apply for licenses. This was not allowed under the old regulation[17]. The new regulation was mainly to encourage corporations which are currently conducting other businesses to become insurance brokers. The emphasis is placed on companies which operate payment service counters such as counter services, Pay-Point, Telewiz, DTAC, convenience chain stores such as 7-Eleven. This allows them to act as a point of contact with policyholders (e.g. placing brochure and collecting premiums) without a need for their employees to hold individual insurance broker license. However if these providers want to sell insurance products to their customers, there exists a legal requirement for their employees to hold individual licenses (Siamturakij, 2012).

4.3.2.2 Other Supports from the Office of Insurance Commission

Not only has the regulator listed the growth of microinsurance as one of the goal in the 'Insurance Development Plan 2', it is also organising many events and activities to create awareness of the necessity and benefits of microinsurance among the grass-root market, such as microinsurance road shows in almost every province in Thailand. The regulator has also signed the Memorandum of Understanding (MOU) with many related parties such as the Ministry of Industry and the Board of Investment, in order to facilitate the accessibility of the group of people who are currently excluded from mainstream insurance to microinsurance of factory workers and Thai citizens working abroad. Similarly, MOUs were signed with the Department of Provincial Administration, Department of Labour Protection and Welfare, Department of Skill Development, the Insurance Accredited Garage Association, the Federation of Thai Industries and the Thai Chamber of Commerce. All these supports from the Office of Insurance Commission are positive factors contributory to the development of microinsurance industry in Thailand. As of May 2011, for less than a year that microinsurance has been provided in Thailand, there were about 25,000 policyholders, around 2,500 agents and 57 participated insurance companies (Siamturakij, 2011).

4.4 Currently Approved Micro Life Insurance Regimes in Thailand

In 2010, a number of micro life insurance regimes have been approved and are currently operating in the Thai market (see a table summary in appendix 4). At present, the majority of micro life insurance products in Thailand are endowment and term life policies[18]. All products are being offered on a voluntary basis, and the majority them are being offered on an individual basis. Life annuities and whole life policies are not yet available in the Thai micro life insurance industry. However, in recent years, annuities are playing an increasingly important role in the traditional life insurance market in Thailand, mainly as a result of government-created incentives such as special tax benefits. It is likely that life annuities can be presented in the Thai micro life insurance industry too with more innovative product researches and the government supports. Unlike in many countries where credit life policies form the majority of micro life insurance products (Roth et al., 2007), the role of credit life policy in the Thai micro life insurance industry is limited. On the social protection perspective, this is a good sign for the development of micro life insurance industry in

Thailand because, as mentioned earlier in section 3.2, credit life insurance is simple for microinsurers to provide, but it does not contribute much to the improvement of a social security system. The role of credit life insurance is very limited in the Thai micro life industry because these policies were only offered as part of a government program to eradicate loan sharks by transferring these loans to state-owned financial institutions[19]. Hence, credit life policies were only being offered through financial institutions such as the Bank for Agriculture and Agricultural Cooperatives on a group basis[20].

5. The Role of Micro Life Insurance in the Current Pension Problems

5.1 The Importance of Micro Life Insurance and its Opportunities

Micro life insurance can be used to help achieve main functions of social protection. It helps provide security to the poor by reducing the probability of a risk event (financial hardship after retirement), reducing its possible impacts and assisting the poor in coping with it once it occurs. Micro life insurance, used together with state subsidies, can be used to protect the poor through income redistribution within society, and promotes the possibility of the poor to assume more risks in order to increase their productivity and earnings, by investing their savings in child education and other productive tools. As a result, micro life insurance not only helps lift the quality of life of the elderly poor, but also has a macro-level benefit of promoting the productivity and economic growth of the country in the long run (Deblon et al., 2012). The rest of this chapter analyses the role of micro life insurance in the current pension problems in Thailand including its implementations, lessons learnt from abroad, challenges and key success factors.

5.2 Micro Life Insurance in the Current Pension Problems

Micro life insurance presents itself as a possible tool to be used to tackle some of the major problems in the Thai pension system, namely: the problem of sustainability, political intervention and fiscal burden, and the exclusion of informal sector workers.

5.2.1 The Problem of Sustainability

Both micro life insurance and traditional life insurance can be used together to help alleviate the problem of sustainability in the current pension system resulting from the ageing population in Thailand.

Life insurance is a well-known tool which does not only provide protection against life uncertainties, but also provide a mean of savings (Zurich, 2012). Life insurance has historically been an important instrument which allows individuals with relatively low income to effectively save and invest in a long-term manner (Dickinson, 2012). In response to a reduction in national wealth and savings as a result of a decrease in work efficiency due to the income group being burdened by the elderly provision, long-term life insurance can be used as a tool to encourage people to save more for their retirement (Enarsson et al., 2006). Therefore, it helps reduce the degree of dependency society is currently placing on the pension system. As a result, the pressure of the problem of sustainability facing the current pension system could be lessened.

For example, long-term savings related insurance[21] such as savings completion insurance and life savings policy can encourage people to save more for their retirements by ensuring coverage and providing protection and other add-on benefits. In addition, other long-term life insurance which accumulates cash value, such as endowment policies, whole life policies and annuities, can also play a role in old-age income provisions (Enarsson et al., 2006; The American College, 2012). In particular, regular pay-outs from life annuities can be used as an additional source of regular income for the policyholders to sustain themselves after retirement. It can supplement other source of retirement income currently available in Thailand such as the Government Pension Fund, the Social Security Fund and the old-age cash benefits. Additionally, it can be used to provide death benefit, provide income to survivors, secure a line of credit[22], pay for funeral expenses or leave as a bequest.

Similarly, micro life insurance is necessary for the majority of Thais, the low-income population, whose access to life insurance products is limited by the characteristics of mainstream commercial insurance. Micro life insurance can be used as a tool to incentivise the majority of Thais, the low-income population, to increase their private savings for retirement. As a result, micro life insurance helps reduce public burden to care for them, and thus increase the sustainability of the current pension system. From a larger perspective, an increase in the national savings also positively contributes to both social and economic development of the country.

In combating the problem of sustainability facing the current pension system in Thailand, the development of both traditional life insurance and micro life insurance has received full support from the Thai government[23] in recent years, especially in its encouragement of a disciplined long-term savings scheme which can help to ensure adequate income after retirement for all Thais, as stated in the 'Insurance Development Plan 2' (explained earlier in chapter4). Recent measures such as preferential tax treatment and special microinsurance licenses are used to encourage the development of traditional life insurance and micro life insurance respectively.

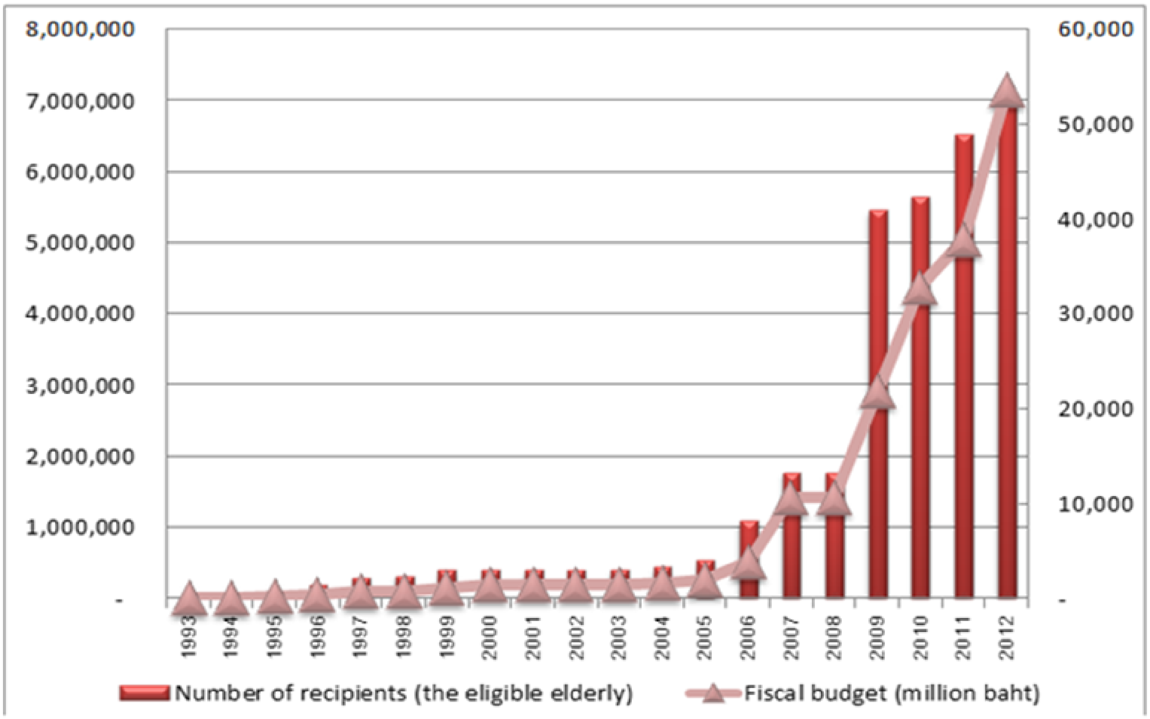
5.2.2 The Problem of Political Intervention and Fiscal Burden

The problem of political intervention leads to an endless fiscal burden. Once social welfare is given by the government to its citizens, it is highly difficult to be removed. For example, removing the current '500-baht old-age cash benefits' could significantly reduce the popularity of the government. Diagram 12 shows the dramatic jump in the rising fiscal burden as a result of the introduction of the'500-baht old-age cash benefits' in Thailand. The sharply increasing trend reflects the critical problem of the fiscal burden of the programme. Micro life insurance can be used as a tool to relieve the fiscal burden of the government to provide for its elderly.

The current means of additional provision for the elderly in Thailand, such as the '500-baht old-age cash benefits' and financial assistance for community-based pension funds are direct fiscal expenses and can be increased in the future in order for the government to gain votes. In contrast, if micro life insurance is to be employed as an additional source of income after retirement, it can help reduce the degree of political intervention. This is because micro life insurance, being offered by private insurance companies (or even through a collaboration between the public and private sectors), is unlikely to be used as a political tool to gain popularity without taking into account the sustainability and long-term performance of the programme. However, if the micro life insurance scheme is either subsidised or run by the government, some degree of political intervention still does exist, though to a far lesser extent.

Government subsidy for some population groups, such as the 'poorest of the poor' group who cannot afford to pay their own premiums, may be required for a successful implementation of micro life insurance. Despite the subsidisation, it is still cheaper for the government than in the case that it acts as a sole provider of additional old-age pensions. Budget savings could then be used elsewhere such as for investments for the long-term development of the country. Examples of budget savings can be seen in countries such as Albania, Algeria, Azerbaijan, Bangladesh, Belarus, Cambodia, Sri Lanka, Indonesia, China, India, Pakistan, Vietnam, Philippines and Turkey. In these countries, microinsurance, regardless of whether it is provided solely by private providers or through collaboration with public sector, has noticing reduced the level of dependency on the fiscal budget in order to assist the low-income population. As a result, the government can instead spend this money on other activities which contribute to the long term development of the country, such as investments in infrastructure, transportation and education systems (Roth et al., 2007).

Diagram 12: The Fiscal Burden of the Old-Age Cash Benefits in Thailand



Source: the National Economic and Social Development Board of Thailand

5.2.3 The Exclusion of Informal Sector Workers

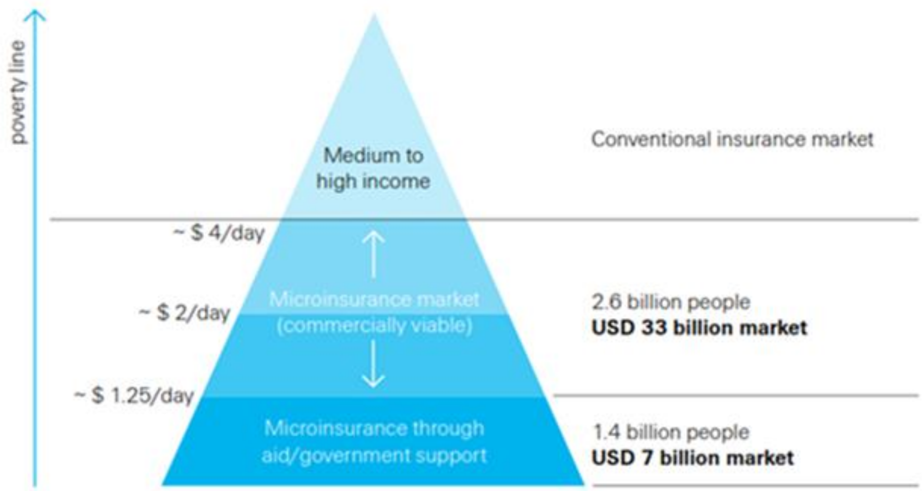
Wealthy households can afford to have their investments, savings and life insurance as their securities after retirement. However the story is completely different for the majority of workers in the informal economy who are poor. Besides the old-age cash benefits and some community-based pension schemes, there are currently no other pension systems to support them. In addition, as discussed in chapter 2, the effectiveness and sustainability of the current measures employed in order to reach out to them are questionable.

Microinsurance could be used as a tool to extend the coverage of social protection, including the old-age provisions, to the excluded groups. Examples of countries using microinsurance to reach out to the excluded groups include India, Senegal, Rwanda, Ghana and Colombia (Jacquier et al, 2006). Firstly, micro life insurance policy design is more flexible than statutory pension programmes. With thorough market demand research, micro life product design can be tailored to reflect the needs of the target groups. For example, premiums and coverage can be tailored to meet the different needs, the willingness to pay and financial capability of the target groups. This can help ensure that micro life insurance products will truly match the needs of and provide a real value for policyholders. Secondly, future improvements in product design can be made more quickly than is the case with statutory pension systems. Thirdly, micro life insurance can also reduce transaction costs in reaching out to the excluded group, because the programme is often operated by decentralised organisations within the local areas (Jacquier et al, 2006). Moreover, community-based micro life insurance programmes often experience lower rate of fraud and abuse than traditional centralised social protection schemes. This is mainly because members are usually from the same community. They are familiar with each other, and similar interests are often shared (Jacquier et al., 2006). Thus micro life insurance, if properly employed, can be an effective tool in reaching out to people who are excluded from both mainstream commercial insurance and the current pension system in Thailand, the poor in the informal economy in particular. With a successful implementation, micro life insurance can be used to reduce financial hardship after retirement and help lift the living standards of the elderly in the informal economy. As a result, in the long run, it can play a role in facilitating the integration of the formal and informal economies.

The effectiveness of micro life insurance in extending pension coverage the excluded group can be enhanced by the use of government subsidies. This is because state subsidy helps facilitate the effect of income redistribution of micro life insurance (Churchill, 2006). However, microinsurance premium subsidies must be carefully designed to avoid raising the issue of unfairness (Deblon et al., 2012). The issue of unfairness arises from the fact that government budget in Thailand, and also in most countries, is mainly financed by indirect taxes[24]. Both the working poor and the ‘poorest of the poor’ (see diagram 14) pay indirect taxes. If current policyholders of micro life insurance mainly consist of the working poor, subsidy would be channelled to them. This is unfair in the sense that indirect taxes collected from the ‘poorest of the poor’ group would also be used to subsidise micro life insurance premiums of the current policyholders, the working poor. Because the ‘poorest of the poor’ do not even have access to micro life insurance as they cannot even afford to pay the required premiums, income is being redistributed from the poorer group to the richer one. Hence government subsidies should be given where the majority of the population, including the ‘poorest of the poor’, have access to microinsurance. If only premiums of the ‘poorest of the poor’ should be subsidised, microinsurance can fulfil the role of progressive income redistribution, while does not raise a concern about equity, among members of society.

It has been recognised worldwide that regardless of the advancement in innovative business models, product designs and distribution channels, not everyone can be insured under market principles, and nor should that be the case (Churchill, 2006). The government still has a responsibility to provide for the 'poorest of the poor' who are at the bottom end of the income distribution pyramid as emphasised by diagram 13.

Diagram 13: Potential Market Estimates of Global Microinsurance Market



Note: $ amounts refer to the poverty line in 2005 Purchasing Power Parity international dollars (PovcalNet/ World Bank). The data may differ from other sources due to various possible reasons including number of countries covered.

Source: Swiss Re, Sigma (No 6/2010): Microinsurance – risk protection for 4 billion people, pp. 9

The role of micro life insurance as a mechanism to extend social protection to the excluded group was summarised by the International Labour Organisation (ILO) as follows:

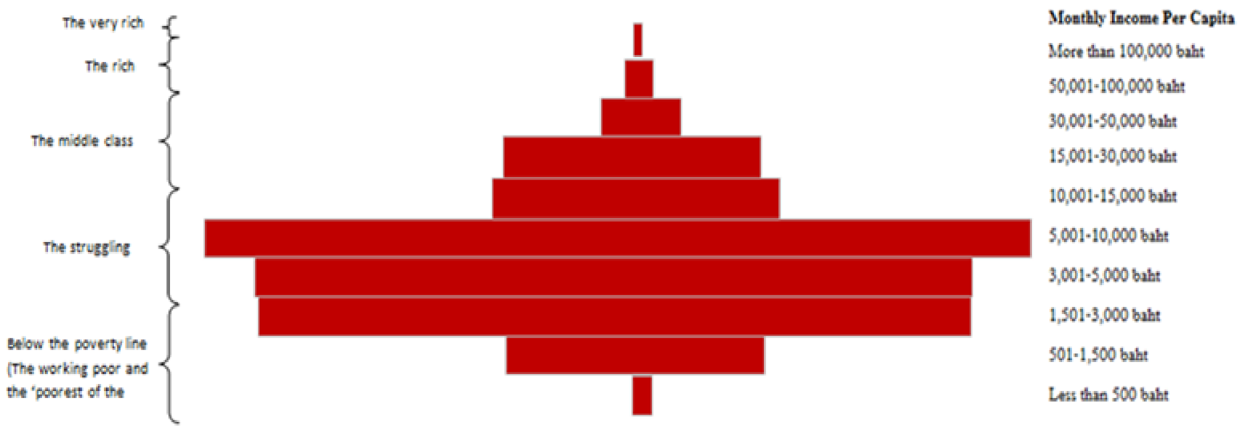
> *"When these groups cannot be immediately provided with coverage, insurance – where appropriate on a voluntary basis – or other measures such as social assistance could be introduced and extended and integrated into the social security system at a later stage when the value of the benefits has been demonstrated and it is economically sustainable to do so. Certain groups have different needs and some have very low contributory capacity. The successful extension of social security requires that these differences be taken into account. The potential of microinsurance should also be rigorously explored. Even it cannot be the basis of a comprehensive social security system; it could be a useful first step. Policies and initiatives on the extension of coverage should be taken within the context of an integrated national social security strategy"*

A quote from the International Labour Organisation (ILO) Conference, the United Nation, 2001,

Source: Jacquier et al., 2006, the Social Protection Perspective on Microinsurance pp.51

In the case of Thailand, the situation is similar. Government subsidies are necessary for the 'poorest of the poor' to have access to micro life insurance because this group of people have no access to micro life insurance. A market-based micro life insurance scheme can be used as a tool to reach out to the working poor and the struggling (see diagram 14). Since people in these two groups have a small amount of income in excess of their consumption, there is a need for an affordable life insurance cover with low premiums in order for them to have access to insurance. However, micro life insurance on its own has its limitations and may not be a suitable tool to reach out to the 'poorest of the poor' who cannot even meet their basic daily needs. Diagram 14 shows the income distribution pyramid of Thailand. The 'poorest of the poor' are people at the bottom of the pyramid and are highly dependent on government support and assistance. People in this group barely have enough income to cover their basic consumption needs. Therefore, state subsidies are necessary for them to have access to micro life insurance (see appendix 5 for an analysis on the income distribution and the characteristics of the low income population in Thailand).

Diagram 14: Income Distribution Pyramid in Thailand (Data as of 2009)



Source: the 2009 Household Socio - Economic Survey Whole Kingdom, National Statistical Office, Ministry of Information and Communication Technology

5.3 Micro Life Insurance Implementation

For micro life insurance to succeed, providers must choose business model which can effectively reach out to the poor. Efforts must be put in to ensure the coverage, accessibility pricing and affordability of micro life insurance products, together with the timeliness of claims payments (Churchill, 2006). Given the low margin nature of micro life insurance products, it is also highly important that the model chosen can be operated at a minimal cost.

5.3.1 Lessons from Thailand's Past Experiences

One of the most important lessons which microinsurance can learn from the 'Aue Ar Thorn' project is that premiums must be priced carefully, taking into account the cost of providing the products in order to ensure the long-term financial viability of the products (as discussed earlier in chapter 4). The 'Aue Ar Thorn' insurance project can also be used to provide a useful guideline on the distribution channels (see chapter 4) which increase the accessibility to insurance of the low-income population in Thailand.

5.3.2 Business Models - Lessons from Abroad

The scope and practice of microinsurance provision vary across the globe[25]. For example, products can be provided through a public-private partnership, partner-agent model or mutual model (Westacott, 2009). Every business model has its own advantages and disadvantages. Therefore, it is essential that the model chosen be tailored and developed to ensure its suitability in its operating environment. Looking at lessons from abroad and taking into account the current insurance and IT infrastructure[26] of the country, Thailand has to choose the models that are suitable for serving its low-income market. Different models may be employed for different low-income classes such as the rural poor, the urban poor, the working poor and the 'poorest of the poor' where suitable.

In addition, experiences from microinsurance providers abroad help provide useful insights into other innovative business models and products which can be adapted for implementation in Thailand where appropriate. For example, religious organisations and schools are used as channels to distribute micro life insurance products of Pioneer Life in the Philippines, where technology such as mobile money and ATMs are also used to facilitate premium collections. An aggregating distribution channel such as intermediary agency is used by ICIC Prudential Life in India. Collaboration with rural water associations in Peru allows La Positiva to distribute its products through the irrigation service network by simple adding premium payments to water bills. The Pre-paid telephone card model, similar the one used in the 'Aue Ar Thorn' project, is also being employed by Old Mutual in South Africa. In Bangladesh, two different micro life insurance products are being offered to the rural poor and the urban poor (see appendix 6 for details of each programme).

In particular, valuable insight can be learnt from the experience of a highly successful specialised micro life insurance provider in Peru, Protecta[27]. The use of micro finance bank branches as their main distribution channel stresses the importance of the fact that micro life insurance cannot be sold directly but rather it has to be distributed through third parties in order to minimise the costs per transaction (see appendix 7).

> *"Microinsurance can't be sold directly; the costs per transaction would be too great for the cost of the product, so we have to sell through third parties.... We're now working with pharmacies, municipalities, universities and other banks to expand our network."*
>
> *Jochamowitz, the president of Protecta Compañía de Seguros*

The model used by Protecta provides a useful insight which is helpful for the implementation of micro life insurance in Thailand. Under the 'Seguro Mi Familia Municipal Protecta' project, it distributes micro-life insurance products through municipal governments and other institutions keen on improving the quality of life of its residents. The insurance coverage is negotiated collectively at the municipal level and premiums are taken from residents as they pay for public services such as taxes (Microinsurance facility, 2012). In addition, their model shows that adding tangible benefits to a micro life insurance product can increase its attractiveness (see appendix 7).

Another insight, this time from The Union des Assurances du Burkina Vie (UAB Vie) in Africa is the benefit of automated daily collection of insurance premiums. The use of mobile phone technology in premium collection assists sales staff to immediately record and transfer information of customer payments to the company database and therefore it facilitates a real time data consolidation and accounting system integration (Microinsurance Facility, 2012). In addition, examples from many countries also proved that the costs of offering micro life insurance can be reduced greatly when products are offered on a group basis[28].

At the present, a partnership model is often proposed as the best model for microinsurance business from the perspectives of governance, efficiency and cost (Wharton, 2010). A partnership model should employ a value-chain analysis to determine the role suitable for each party. The partnership model can be used to solve the problem of credibility gap[29] which often arises from a direct sell from an urban-based microinsurer. At the same time, it also reduces the problem of a failure in product design, caused by the lack of actuarial expertise of the NGOs and MFIs.

> *"Lots of products are developed by NGOs, which are in touch with people and [therefore] understand what's crucial for their wellbeing. But they underestimate how to make it work from an insurance perspective, the actuarial discipline that" goes into constructing a viable contract, including calculating premiums and other pricing issues"*
>
> *A quote from Neil Doherty, the Wharton professor of insurance and risk management*
>
> *Source: Wharton, 2009, Microinsurance: A Safety Net with Too Many Holes?*

From the efficiency and cost perspective, up to 90 per cent of a premium can be spent on delivery and collections in the first year. An insurance company can save up to 10 per cent of the cost by leveraging on an existing client network owned by a microfinance institution. This savings can then be transferred to the poor in the forms of lower premiums and enhanced value of microinsurance (Wharton, 2010). The success of micro life insurance under the partnership model depends highly on close partnerships between insurers, distributors, local communities and regulators, and how well these relationships are managed.

5.3.3 Premium Collection techniques

Because of its low margin, operating expense in micro life insurance must be kept as low as possible. Three main premium collection techniques currently adopted worldwide are electronic deduction, micro-agents and linked payments.

5.3.3.1 Electronic deduction

Electronic deduction allows premiums to be automatically deducted from the insured bank account. This technique is prevalence in South Africa (Roth et al., 2006). Since opening a bank account in Thailand is a simple matter, in which the only document required is a national identity card, and normally there is no account maintenance fee, this technique can be employed through both commercial bank and state-owned bank branches nationwide. The model is likely to work better in collaboration with government savings banks, bank for agricultural and cooperatives such as credit unions as their main clients are the low-income segment. This model can be supplemented by the use of cell phone banking to increase its coverage, and so that transaction costs of visiting a bank can be substantially reduced.

5.3.3.2 Micro-agents

Tata-AIG[30] in India uses micro-agents, mainly low income women within the community, to collect premiums. These people are willing to work for a relatively low commission as it is viewed as additional income to them (Roth et al., 2006). This micro-agents model is also used by Delta Life and ALMOA. A high level of population density and a sufficient level of education in India are two main factors for the micro-agents model to work successfully (Roth et al., 2006). As population density is one of the key success factors of this model, it may not be a suitable model for Thailand.

5.3.3.3 Linked payments

CARD, Grameen and TUW SKOK have minimised operating costs by linking payments with another financial transactions. In the case of CARD and Grameen, savings payments are made in the same weekly local meetings where loan repayments are made. In the case of TUW SKOK, a small sum is automatically deducted from a monthly deposit. The insurer receives an accumulated amount as a premium at the end of the month (Roth et al., 2006). At the present, the Office of Insurance Commission is encouraging the role of payment counters to act as micro insurance intermediaries. As these counters are located in local areas, people usually go there to make their utility bill, mobile phone and credit card payments. The use of shared counters aims to help increase the accessibility of micro life insurance among low-income population in both urban and rural areas. Linked payments model can be considered as a next step for Thailand as it can be added on top of the shared counter model. Not only shared counters can be used, but also premiums can be linked with other bill payments in order to increase the convenience and thus the accessibility of micro life insurance to the low-income population.

5.4 Choices of how Micro Life Insurance Fits into the Current Pension System

Micro life insurance is a useful tool to enhance the current pension system of Thailand. Worldwide experience of micro life insurance development shows that there are five main ways it can fit into the overall pension system elaborated on below. The role which micro life insurance can play in extending pension provisions to the poor depends highly on the current structure and coverage of the current pension system. The current Thai pension system is highly fragmented, and it is currently facing a number of problems mentioned earlier in this chapter. Thailand does not have any formal pension system for informal sector workers at the moment (as explained in chapter 2).

However, the introduction of the National Savings Fund (see chapter 2) which will come to effect in the near future must be taken into account when evaluating how micro life insurance can be integrated into the current pension system big picture (to be elaborated below). In addition, after the National Savings Funds starts its operation, the question of how micro life insurance can be employed as part of the pension system in Thailand will have to be readdressed. This is because the role of micro life insurance, as part of the pension system, will be affected by how effective the fund will be in reaching out to the excluded groups, and how well received the fund will be among its target population.

There are five ways micro life insurance can be integrated into the overall pension system. These five ways are written Deblon (2012) for microinsurance in general, and therefore is applicable to micro life insurance[31]. They are explained below and summarised in diagram 15.

Firstly, micro life insurance can be used as a substitute for the pension system. This setting is suitable when the government does not have the ability/willingness to extend the current pension systems to the excluded group in the informal sector. Given this scenario, micro life insurance can at least bridge the existing gap between these groups. Examples include mutual insurance programmes in rural parts of Western and Central Africa (Deblon et al., 2012). The Thai government has shown its willingness to extend the current pension system to the excluded group. The National Savings Fund has aimed to reach out to these people. If it is successful then this first option would not be suitable. Whether or not the fund will be successful depends on its sustainability and financial viability. Therefore, if the fund is sustainable and financial viable, the first option will not be suitable for Thailand.

Secondly, micro life insurance can be used as an alternative to the current pension system. This can work when pension schemes are available for workers in the informal economy, but where they do not find them attractive and do not use them (Deblon et al., 2012). For example, it may be accessible for only urban formal/informal workers but not for farmers and other rural informal sector workers. Given this scenario, micro life insurance can be used in parallel as an alternative to the current pension systems. This option may be suitable for Thailand if the National Savings Fund turns out not being well received among the low-income population in the country because they do not find them attractive. This option was also being suggested by Giesbert (2010) in the case of Ghana where the enrolment of informal sector workers in the pension system is negligibly minimal[32].

> *"Endowment type micro life insurance may play an important role in filling gaps in existing public old age security systems. Participation in Ghana's national pension scheme (SSNIT), for instance, is almost exclusively confined to formal sector employees"*
>
> *Lena Giesbert, 2010, Uptake of Micro-Life Insurance in Rural Ghana*

Examples can also be drawn from the area of healthcare. Micro health insurance is still being offered by cooperatives in Vietnam even though people who are excluded from the social health insurance scheme have a choice to participate in a separate social health insurance programme, also operated by the official social insurance cooperation, which requires modest contribution (World Bank, 2011). In Ghana, independent mutual health insurance products are offered alongside district health insurance programme linked with the National Health Insurance Fund (Deblon et al., 2012).

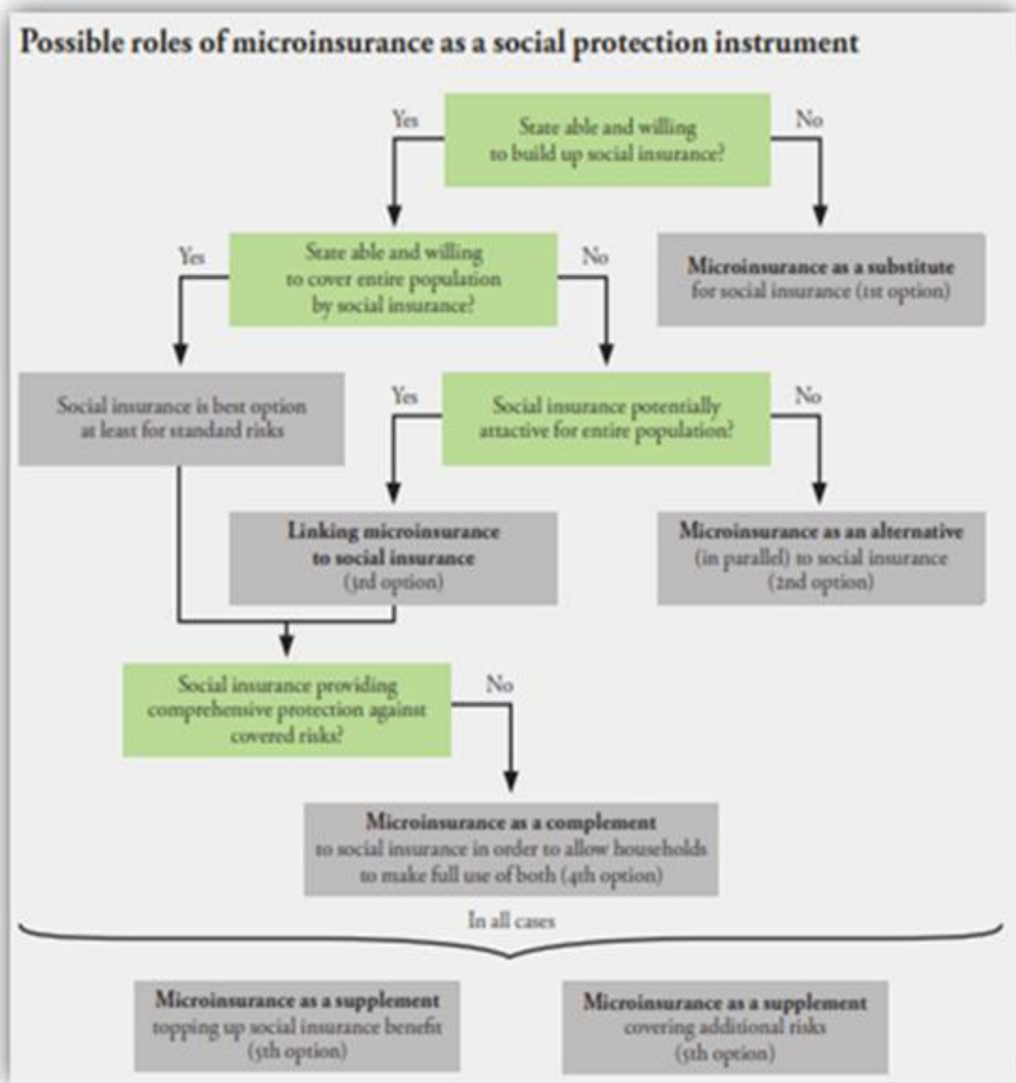
Thirdly, Micro life insurance can be part of the pension system, and this can include the administration and other forms of harmonisation such as the creation of equal opportunity. The administration of micro life insurance can be linked to the current administration of the pension system. In particular, private micro life insurance agents can be utilised in the administration of the current public pension system. This will work given that the current pension systems are potentially beneficial and attractive to the excluded group. However, the government would have problems in extending the coverage of the current systems to the excluded group because of administration issues and the problem of convincing the excluded group of the benefits of their participation in the programme due to the lack of trust and awareness. Examples can be drawn from Vietnam and Ghana (Deblon et al., 2012). In this option, micro life insurance can assist the operation of the National Savings Fund by providing the agents which can be more effective in reaching out to the poor. Based on this they can have integration together. Micro life insurance can be a part of the new pension system as an entity under an umbrella organisation of insurance providers headed by the Thai government. This can bring the benefit of harmonising the administration of the individual systems. In particular, private micro life insurance agents can be utilised in the administration of the current public pension system.

Fourthly, given that the current pension systems are not sufficient to provide for retirement needs, micro life insurance can be used as a complement to top up the current pension system. For example, in the case of Thailand, micro life insurance can be used to top up the '500 baht old-age cash benefits' which is obviously far from sufficient for the elderly to support themselves (as explained in chapter 2). Additionally, given that the National Savings Fund has a high degree of market penetration among the poor in the near future, micro life insurance can also be used to top up the monthly pension provided by the fund. In particular for people whose contributions into the fund are very minimal due to their limited financial capabilities. The National Savings Fund will use the principle that if the monthly pension calculated from member contributions is lower than 500 baht, the fund will pay a minimum pension of 500 baht per month until members accounts turn zero[33]. Therefore, under the scenario that the government keeps both the '500 baht old-age cash benefits' and the National Savings Fund, the minimum monthly income for any elderly in Thailand will be 1000 baht. This is still considered very low as it was around two-third of income that would have qualified someone as being under that national poverty line in 2010. Given the current average income of 6,720 baht/month, 1000 baht/month is only equivalent to 14.9 per cent of the average income (World Bank, 2011).

Examples can also be drawn from the area of health micro insurance. In Vietnam, micro health insurance is being used to complement the voluntary social health insurance scheme which does not cover transportation costs to hospital which are significant costs for people in remote rural areas. Similarly, as social healthcare programmes in many developing countries do not cover the cost of medicine, health microinsurance can be effectively complement the existing social healthcare programme (Deblon et al., 2012).

Lastly, micro life insurance can be used as a supplement to fill the gaps that exist in the current pension system. It can be used to provide coverage on the areas that have not been covered by the current systems such as funeral expense, children education and hospitalisation. Micro life insurance can be used as a supplement to the current pension systems (Deblon et al., 2012). For Thailand, as the National Savings Fund will only pay monthly pensions to its members, this option may be suitable to help broaden the coverage and areas of benefits provided by the fund.

Diagram 15: Possible Roles of Microinsurance as a Social Protection Instrument



Deblon et al., the Potential of Microinsurance for Social Protection, 2012, pp. 52

5.5 Challenges and the Way Forward

Examples drawn from other countries where more established micro life insurance programmes are present, show that despite many benefits micro life insurance has to offer, there exist a number of limitations[34].

5.5.1 The Inability to Reach a Certain Group of Population

Firstly, in spite of its increasing popularity, microinsurance is still unable to reach groups of people who are excluded from both the mainstream commercial insurance and social security system. For example, many microinsurance schemes in Africa find geographic and/or socio-occupational expansion of their programme very challenging. This can be a result of many existing obstacles such as limited understanding of its principles and benefits of micro life insurance, the lack of trust and a negative image of insurance industry.

As micro life insurance industry in Thailand is still in its early stage, it is too soon to conclude at this point whether the industry will face the problem of certain groups being excluded. However, even in the experience of the traditional insurance industry in Thailand, full advantage of life insurance has not yet been realised. In 2010, the life insurance penetration rate was only 2.6 per cent. This was caused by a number of obstacles to the development of the life insurance industry. Examples include the lack of insurance knowledge and understanding among the public, the lack of tax incentives for insurers to develop innovative products, the lack of appropriate distribution channels for long-term savings schemes and the lack of a good public relations about the benefits of insurance. These obstacles are also likely to be present in the micro life insurance industry in Thailand.

It is crucial that these obstacles be removed in order to achieve a successful development of micro life insurance. Creating positive attitudes and better image of insurance industry among the public can help reduce the credibility gap and increase the level of trust local communities have for it. In addition, regulatory support such as the simplicity and accuracy of the policy language and modest yet appropriate requirements regarding micro life insurance intermediary licenses, are crucial to facilitate the development of micro life insurance industry. Close regulatory oversight creates a sense of security for the insured by reducing counterparty credit risk, builds trust and confidence among policyholders, and reduces the risk of mis-selling[35].

5.5.2 The Limited Income Redistribution Function of Micro Life Insurance

Secondly, unlike statutory social security programmes, the majority of market-based microinsurance products fail to perform the income redistribution function between rich and the poor. The ‘poorest of the poor’ group is rarely captured by microinsurance (Jacquier et al., 2006). This challenge is mentioned earlier in this chapter. It is important for microinsurance to have beneficiaries in this group so that microinsurance can achieve its objective of extending pension provisions to the low-income population. Given members’ limited financial capability to pay premium, the use of government subsidy can help ensure that the ’poorest of the poor’ have access to micro life insurance. At the same time, state subsidy helps facilitate the effect of income redistribution of micro life insurance. As a result, by effectively reaching out to the low-income population, government subsidy helps increase the effectiveness of micro life insurance as a tool to help alleviate the problems of the current pension system. However, state subsidy must be carefully designed in order to prevent the issue of fairness that may arise (see section 5.1).

5.5.3 The Problem of Financial Viability and Sustainability of Micro Life Insurance Programme

Thirdly, many microinsurance programmes across the globe face a problem of financial viability and sustainability. This is mainly due to poor management skills and limited availability of actuarial data and information within the country (Jacquier et al., 2006). The case of CARD MBA in the Philippines provides a well-known example of how severe a consequence of providing micro life insurance without sufficient actuarial data and thorough demand research[36]. Fortunately, in contrast to many developing countries where a lack of adequate actuarial data is a common problem in micro life insurance product design, Thailand has the Office of Insurance Commission, which acts as an insurance data centre of the whole country. Mortality tables and other related actuarial data for constructing life insurance products are available. Thailand also has the domestic professional reinsurer, Thai Reinsurance, which acts as centre of knowledge and provides consultation and other insurance-related services to insurers. In addition, Thailand also has the Life Assurance Association, which is a forum where life insurance practitioners can exchange knowledge and mind sets among industry participants. Having sufficient actuarial data allows micro life insurers with essential actuarial skills to ensure the financial viability and sustainability of micro life insurance products offered.

5.5.4 A threat to the Autonomy of Micro Life Insurance Programme

Fourthly, there exists a threat to the autonomy of micro life insurance programme if objectives of microinsurers are not in line with that of the government in extending the pension coverage to the excluded group. This is because the role which micro life insurance can play in the current pension system should be determined from the social protection perspective of microinsurance (as discussed in chapter3). The relationship between microinsurance providers and the state must be carefully and wisely managed in order to ensure the willingness to participate from all involving parties and to reduce the threat to the autonomy of the programme (Jacquier et al., 2006).

5.5.5 Failed Product Designs

Another challenge of micro life insurance at the present is the fact that product design often fails to reflect the risks faced by the poor[37], and is thus unable to meet their needs. This is mainly because demand for micro life insurance coverage varies greatly from one village to another depending on the needs, financial capability and willingness to pay of each target group. As summarised by a quote from Churchill, downscaling traditional life insurance products and offering them to the poor in a uniform format will not lead to the success of micro life insurance.

> *"An insurer cannot just offer what they always do but at a reduced price. A product really has to be redesigned after assessing what the local needs are, and it has to be accessible... Eventually, more microinsurance products could be run out of local "mom and pop shops" or over mobile phones to make these products as accessible as possible."*
>
> *A quote from Craig Churchill, the Head of ILO's Microinsurance Innovative Facility*
> *Source: Wharton, 2009, Microinsurance: A Safety Net with Too Many Holes?*

5.5.6 Micro Life Insurance May Provide No Real Value

Lastly, low premiums and low pay-outs can result in a policy which is of no real value to the insured[38]. This is because expenses are high, and pay-outs are low. In this case, government subsidy can be used to help increase the pay-outs and hence increase the real value of microinsurance in the eyes of the insured and their beneficiaries. Moreover, long-term micro life insurance products such as life annuities and endowment are also facing common problems of devaluations, inflation, low returns on investments[39], high lapse rates and loss of premiums because of early termination (Roth et al., 2007).

6. Conclusion and Suggested Further Study

This aim of this paper was to find out whether micro life insurance could be used as a solution to the problems of the pension system in Thailand. This paper has found that there are five main problems the Thai pension system is currently facing. Firstly, the current pension system is no longer sustainable mainly because of the ageing population in Thailand (the problem of sustainability). Secondly, the Thai pension system is prone to intervention by the government and being used as a political tool for the government to gain popularity, especially among the low-income population who are the majority of Thais. Such political intervention leads to an endless fiscal burden (the problem of political intervention and fiscal burden). Thirdly, Pension funds have limited investment opportunities and therefore have low returns (the low returns problems of the pension funds).Fourthly, because of the Thai pension system is highly fragmented, the system is not transferable. Different pension systems for each occupational group are based on different principles, such as defined benefit, defined contribution and pay-as-you-go (the lack of portability). Lastly, the coverage of the current pension system in Thailand is only limited to the minority of Thais. The majority of Thais, informal sector workers in particular, are left out by the current pension system (the exclusion of informal sector workers).

Current solutions adopted by the Thai government have included the ‘500-baht old-age cash benefits’, the National Savings Fund and the community-based social welfare funds. However, these initiatives are prone to misuse by the government in order to gain votes without taking into account the long-term consequence of heavy fiscal burden and public debt problem. In addition, the effectiveness of these measures in reaching out to the poor, including their sustainability and financial viability, are under heavy criticism. Moreover, at the present, there is no suggested method to consolidate the different systems in the Thai pension system in the medium to long run. As a result, the Thai pension system is still highly fragmented.

The paper has shown that micro life insurance can be used to solve major problems in the Thai pension system for a number of reasons. This was done by way of analysis of the characteristics and benefits of micro life insurance, supported with an application of microinsurance from a social protection perspective and examples drawn from worldwide microinsurers. However, not all micro life insurance products can be used for this purpose. Only certain types of micro life insurance such as long-term life insurance which accumulate cash value, such as life annuities, endowment and whole life policies, and long-term savings related insurance, such as savings completion insurance and life savings policies, are useful in solving the problems of the Thai pension system. Micro life insurance products such as credit life policies are of no value in the social protection perspective of micro life insurance.

The paper has also suggested the ways in which micro life insurance can be implemented in Thailand. This was done by taking into account lessons learnt from microinsurers globally, and Thailand's own experience with the insurance for low income market (the 'Aue Ar Thorn' project). Micro life insurance should be implemented taking into account the overall pension system of the country. It is very important to first determine where micro life insurance can fit into the big picture of the overall pension system, and then integrate it into the whole system accordingly. There are five main ways in which micro life insurance can be integrated into the Thai pension system. Micro life insurance can be employed as a substitution for, alternative of or a part of the pension system. It can also be used either as a complement to top-up the benefits of the pension system or as a supplement to fill the gaps of the system.

Lessons from both Thailand's past experiences, and overseas, stress that micro life insurance premium pricing must be done with care. Pricing must not only focus on making it cheap so that it can be accessible to the poor, but should also take into account the cost of providing the products in order to ensure the long-term financial viability of the micro life insurance programme. Product designs must match the needs, characteristics, willingness to pay and financial capability of the poor. Downscaled traditional life insurance products cannot serve the needs of the poor. More specifically, some of the practical lessons learnt were from the Pre-paid telephone card model which was used in the 'Aue Ar Thorn' project can be improved by designing two different types of micro life insurance products, one tailored to serve the rural poor and the other for the urban poor as witnessed in Bangladesh. Premium payment structure should be flexible in order to best reflect irregular income patterns of the low-income population. Premiums can be paid monthly, quarterly, semi-annually, or annually as widely witnessed in the micro life insurance industry in India.

Business models must be cost-efficient and effective in reaching out to the low-income market. The costs of offering micro life insurance can be reduced greatly when products are offered on a group basis through third-parties. A valuable insight, which is helpful for the implementation of micro life insurance in Thailand, can also be drawn from the case of Protecta, a highly successful specialised micro life insurance provider in Peru. The insight is that micro life insurance cannot be sold directly, but rather has to be distributed through third parties in order to minimise costs per transaction. Therefore, the use of an aggregating distribution channel should be encouraged. Micro-life insurance products can be distributed through municipal governments and other institutions keen on improving the quality of life of their residents. The insurance coverage is negotiated collectively at the municipal level and premiums are taken from residents as they pay for public services such as taxes. Alternatively, with collaboration with the irrigation service network, premiums payments can simply be added to water bills (ICIC Prudential Life in India).

The use of technology such as mobile money (UAB Vie in Africa) and ATMs (Pioneer Life in the Philippines) to assist in premium collection should be encouraged. Electronic bank account deduction (South Africa), micro-agents (Tata-AIG in India), linked payments (CARD, Grameen and TUW SKOK) are all potential models which can be employed in order to minimise the cost of premium collection. However, in contrast to the case of India, the micro-agents model may not be suitable for Thailand because population density is one of the key success factors of the model. At the present, local payment counters, for utility bill, mobile phone and credit card payments, are being encouraged to act as microinsurance intermediaries. The use of shared counters aims to help increase the accessibility of micro life insurance among low-income population in both urban and rural areas in Thailand. The linked payments model can be considered as a next step for Thailand as it can be added on top of the shared counter model. Not only shared counters can be used, but also premiums can be linked with other bill payments in order to increase the convenience and thus the accessibility of micro life insurance to the low-income population.

Looking at all these lessons from abroad and taking into account the current insurance and IT infrastructure of the country, Thailand has to choose the models that are suitable for serving its low-income market. The partnership model is broadly accepted to be the best model for microinsurance business from the perspectives of governance, efficiency and cost.

The partnership model can be used to solve the problem of credibility gap which often arises from a direct sell from an urban-based microinsurer. At the same time, it also reduces the problem of a failure in product design, caused by the lack of actuarial expertise of the NGOs and MFIs. A value-chain analysis should be employed to delegate the role suitable for every party involved. However, the participation of NGOs, MFIs, community-based organisations and religious organisations in the Thai micro life insurance industry must first be encouraged because these organisations play a very limited role at the present. In addition, different models may be employed for different low-income classes such as the rural poor, the urban poor, the working poor and the 'poorest of the poor' according to the needs of the people. Micro life insurance is a relatively new industry in Thailand. The number of microinsurers is still very limited, and the majority of products are limited to endowment and term life policies. However, with support from the Thai government and the Office of Insurance Commission, the regulator of insurance industry in Thailand, the development of micro life insurance should take place at a fast pace, and the roles it can play in the pension system should be increasingly realised in the future.

The paper has concluded that micro life insurance is a possible tool which can be used to effectively solve a number of current problems in the Thai pension system. This can be done under a number of settings. However, on the road ahead, there exist a number of challenges for the implementation of such solutions. The paper has concluded with these limitations and the way forward for the development of micro life insurance in Thailand. Some of these challenges include the inability of micro life insurance to reach a certain group of population mainly due to the lack of trust, understanding and a negative image of insurance industry. Close regulatory oversight can facilitate the establishment of trust and confidence among policyholders by reducing the counterparty credit risk and the risk of mis-selling. Secondly, the ability of micro life insurance to perform income redistribution function is limited as the 'poorest of the poor' group are often being excluded from the programme. Thirdly, there exists the problem of financial viability and sustainability of micro life insurance programme mainly due to poor management skills and insufficient actuarial data available. Fourthly, poor public-private relationship management can bring about a threat to the autonomy of micro life insurance programme. Lastly, there exists the problem of failed product designs, which poorly reflect the needs of the poor. In addition, micro life insurance policies may provide no real value to the insured because expenses are high, and pay-outs are low.

More work is required to overcome these challenges. Some suggested further research areas include a study in the area of designing a suitable, effective and cost-efficient mechanism for state subsidy in micro life insurance. The findings of such research can help determine state subsidy mechanisms which can best facilitate the ability of micro life insurance in reaching out to the 'poorest of the poor' group as well as to facilitate the income redistribution function of micro life insurance. Such a state subsidy mechanism would also enhance the real value of micro life insurance policies. Further research is also needed in the area of innovative micro life insurance product design. The result of such study would help microinsurers to better serve and provide more real value to the poor by providing products which suit their needs, characteristics, willingness to pay and financial capability. Further research is also required in the area of designing a suitable public-private relationship management mechanism in order to ensure the autonomy of micro life insurance programme so that the programme can effectively perform its roles in solving the problems of the pension system in Thailand.

In conclusion, while there is much potential for the implementation of micro life insurance, a lot of work needs to be done to achieve that aim. It is hoped that micro life insurance can be implemented as a solution for the problems in the Thai pension system in the near future.

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Appendices

Appendix1: Details of the Current Pension System in Thailand

1. The Government Pension Fund

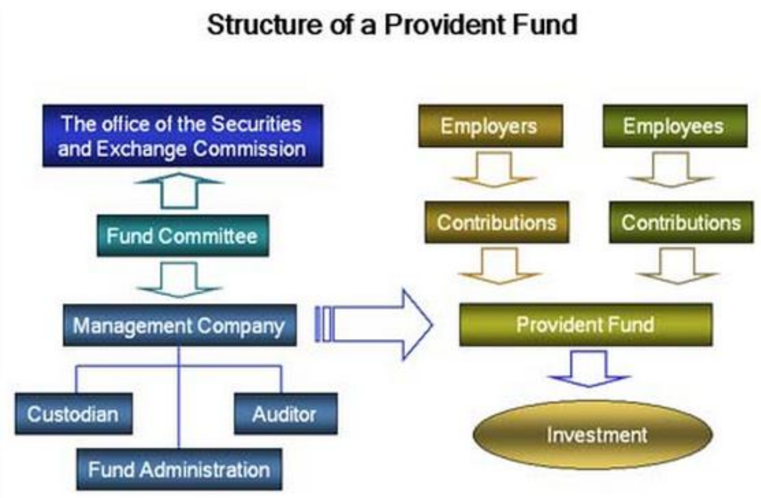
The Government Pension Fund was founded according to the Government Pension Fund Act B.E. 2539. Memberships are limited to civil servants only. The main purpose of the fund is to ensure retirement benefits, together with some other welfare, for civil servants. Memberships are compulsory. The fund operates on the principle of a defined contribution. Contributions are made by civil servants and the government.

2. The Social Security Fund

Established under the Social Security Act 1990, the Social Security Fund has been providing many types of benefits for the insured persons. Some of the benefits include sickness, maternity, invalidity, death, child allowance and unemployment alongside old-age pension. Members must be private sector workers. Memberships are required by law. The fund operates on the principle of a defined benefit. Contributions are made by employers, employees and the government.

3. The Thai Provident Fund

This is another pension find for private sector workers. In contrast to the Social Security Fund, memberships of the Thai Provident Fund are voluntary. The fund operates on the principle of a defined contribution. Contributions are made by employers and employees. The fund pays a lump-sum amount to members after the termination of their employment. Below is a chart displaying the structure of the Thai Provident Fund.



Source: http://www.thaipvd.com/index_en.php

4. Community-based Pension Schemes

These schemes are parts of social welfare fund within the communities. Programme structures and benefits provided vary from one community to another. Below is a table shows an example a benefit package of such programme in Songkhla province, Thailand.

Type	Details
Maternity pay	• For newborn baby: 500 baht per birth (limited to 1,000 baht/year); • For mother: medical expense subsidy of 100 baht/night (limited to 5 nights/birth).
Medical expense subsidy	100 baht/night (limited to 10 nights per year).
Education loan	30% of educational expenses.
Funeral expense subsidy	2,500 baht-30,000 baht (according to contribution periods) 180 days - 2,500 baht; 1,460 days - 15,000 baht 365 days - 5,000 baht; 2,920 days - 20,000 baht 730 days - 10,000 baht; 5,840 days - 30,000 baht
Debt clearing for the deceased	Maximum 30,000 baht (limited to debt to local/community savings organization and continuously and punctually repaid debt).
Savings reward for the deceased	Reward of 50% of the deceased's savings (limited to 15,000 baht and local/community savings organization account; 100 baht monthly paid to the surviving family).
The needy	Fund will pay contribution as his/her representative.
Contribution-collector compensation	130 baht/collection time (30 baht will be used as daily contributions of the collector to the fund).
Pension	300 baht-1,200 baht/month (depending on contribution period) 15 years - 300 baht/month; 40 years - 800 baht/month 20 years - 400 baht/month; 45 years - 900 baht/month 25 years - 500 baht/month; 50 years - 1,000 baht/month 30 years - 600 baht/month; 55 years - 1,100 baht/month 35 years - 700 baht/month; 60 years - 1,200 baht/month

Note: US$1 = 32.324 baht (as of first quarter of 2010) and 1 constant 2005 PPP $ = 15.93 baht.

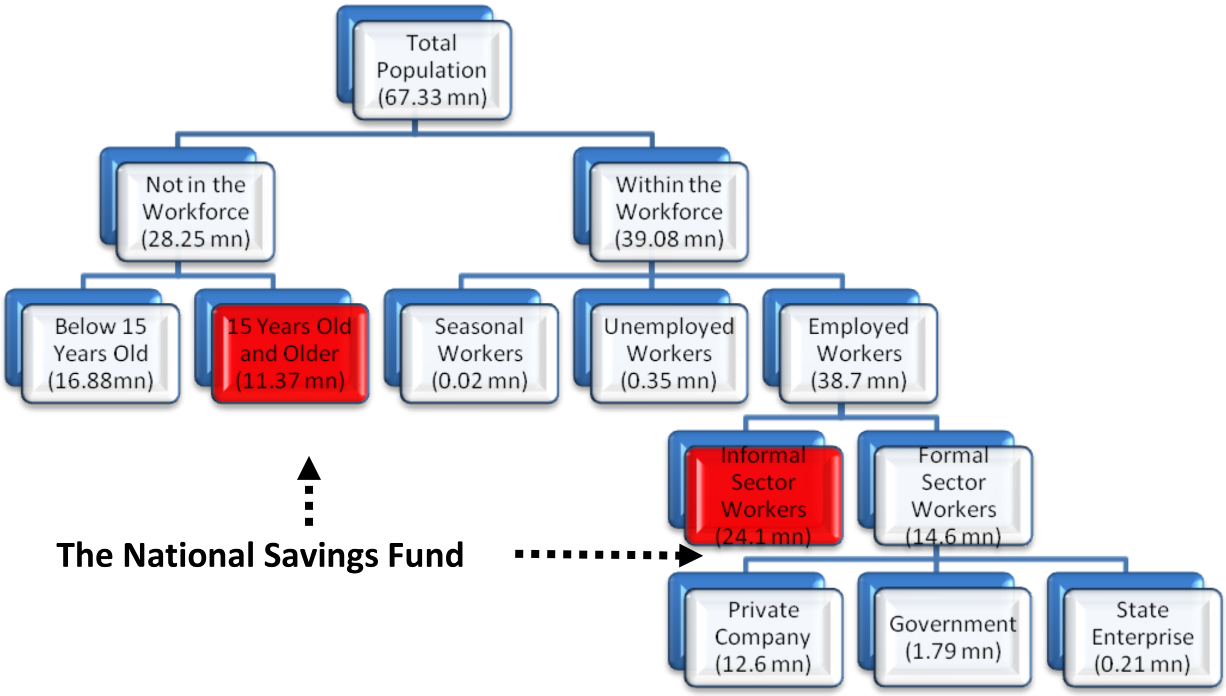
Source: Table 3, Suwanrada (2009), p. 57.

Source: Sakunphanit et al., 2011, Sharing Innovative Experiences, Volume 18: Successful Social Protection Floor Experiences, ILO – SU/SSC (UNDP) – National Experts, 2011, pp. 406

5. The National Saving Fund

The fund was established under the National Saving Fund Act 2011. However, the establishment process is very slow. The first membership subscription date was scheduled to be in May 2012, but it is now being postponed until further notification from the Ministry of Finance. The National Savings Fund only allows people who currently do not have any pension system, the informal sector workers in particular, to become members of the fund. Examples of informal sector workers are employees of foreign governments or international organizations, agricultural, forestry, and fishery employees, temporary and seasonal workers and Thai citizens working abroad (Social Security Programs Throughout the World:

Asia and the Pacific, 2010).The fund allows them to rest assured that their future benefits from their contributions will not be affected if there is a change in their occupations from the informal economy into the formal economy in the future. Below is a diagram shows the population structure and the coverage of National Savings Fund (Data as of 2010).



Source: the Ministry of Finance, the National Savings Fund Presentation, 2011

6. The Old-Age Cash Benefits

Introduced by the Thai government in 2009, the Old-Age Cash Benefits are direct fiscal expense with no legislative support. Cash amount of 500 baht per month is given to all elderly who are not receiving any income for the government. Below is a summary of the '500 baht Old-Age Cash Benefits' Programme.

Summary

Target group:	Every elderly Thai person (60 years of age or older) who is not in elderly public facilities or does not currently receive income permanently (i.e., government pension recipients, government employed persons).
Target population:	6.87 million (approximately 95% of the elderly); Number of registered elderly: 5.65 million (82.2% of target population).
Benefits:	In-cash benefits, 500 baht (31.4 constant 2005 PPP $) per month.
Delivery process:	In principle, the elderly or the authorized representative must register with the local authorities where he or she has inhabitancy registration. The qualified recipients can choose among four methods: • to receive cash directly from the local authority office; • to designate an authorized representative to receive cash directly from the local authority office; • to have the pension transferred to the elderly person's bank account; • to have the pension transferred to a bank account of an authorized representative. However, the elderly must bear the fee for the bank-account transfer if they do not have a Krungthai Bank account.
Total expenditure (fiscal year 2010):	33,917 million baht or 2,129.1 constant 2005 PPP $ (approximately 0.37% of GDP).
Source of funding:	General tax revenue.

Source: Sakunphanit et al., 2011, Sharing Innovative Experiences, Volume 18: Successful Social Protection Floor Experiences, ILO – SU/SSC (UNDP) – National Experts, 2011, pp. 401

Appendix2: Examples of Micro Life Insurance Worldwide

Micro Life Insurance Products	Examples of Micro Life Insurance Providers	Product-Specific Challenges
Credit life policies This is one of the most common types of microinsurance (Roth et al., 2007; Matul et al., 2010). Credit life insurance is generally compulsory as a pre-condition for loan approval. The policy ensures that the outstanding loan dies when the debtor dies (Roth, 2012).	***India*** Spandana IDBI Fortis ***Zambia*** Christian Enterprise Trust Zambia (CETZAM) Madison Insurance Pulse Holdings Ltd ***Uganda*** FINCA Uganda ***Togo*** MAFUCECTO ***Malawi*** Malawi Union of Savings and Credit Cooperatives (MUSSCO) ***Vietnam*** Tao Yeu May's Mutual Association Fund (TYM) ***The Philippines*** Taytay Sa Kauswagan (TSKI) ***Indonesia*** Allianz Life Indonesia ***Egypt*** Allianz Assurance	Credit life policies are simple to provide and they are very popular among micro life insurance providers worldwide. However, since basic credit life insurance covers only the outstanding debt of the insured, they do not play a role in extending social security in the strict sense (Roth, 2012)
Life Annuities (Retirement Annuities) A retirement savings policy in which the insured receives regular payments after retirement in returns of their premiums. It works on the pooling	***Peru*** Protecta Compañía de Seguros ***Ghana*** Investima Donewell	Life annuities is the most actuarially complex of all life insurance products. Because of their long-term nature and accumulating cash values, pricing annuities is very difficult because it does not only require a high level of actuarial expertise and a

returns of their premiums. It works on the pooling	Donewell	require a high level of actuarial expertise and a
principle in which those dying earlier support those living longer (Roth, 2012)	***The Philippines*** Rimansi CARD Mutual Benefit Association (CARD MBA) ***Georgia*** Crystal (in a developing process)	sophisticated pricing model, but also require precise and sufficient data on population age, mortality table and demographic data in order to forecast future average life spans, design an investment strategy and ensure the viability of the programme. Annuities can be an option for low-income workers in the formal economy. However, offering annuities to informal sector workers requires considerable actuarial skills. As such, fixed term annuities in which premiums are easier to calculate are suggested over annuities which pay until the death of the insured (uncertain term) as a transition step (Rutherford, 2008)
Endowment Policies A combination of long-term savings plan and life insurance which is currently being offered by many insurance companies worldwide in order to satisfy the demand for long-term savings by the poor (Churchill, 2006). Regular premiums are paid over a long term, normally five years or more. The policy pays out either to the beneficiary if the insured deceases during the policy term or to the insured if the insured survives the term. An endowment policy also helps increase accessibility to credit by allowing the insured to borrow against the surrender value of the policy (Roth, 2006).	***India (see appendix 2.1)*** Tata-AIG ***Bangladesh*** Delta Life ***Sri Lanka*** All Lanka Mutual Assurance Organisation (ALMAO) ***Indonesia*** Allianz Life Indonesia	An endowment policy is often under a criticism that it does not provide real value to the poor. The product is often inefficient as it has high operating costs thus providers often rely on high lapse rates (Churchill, 2006). As the poor forget to pay premiums, the policy lapses and as a result policyholders lose most of the premiums they paid up to that point. With the right product design and cost efficient operation, endowment policies can effectively be provided to the poor (Roth, 2006). Performance results are mixed in terms of demand, feasibility, and profitability. Opinions regarding the appropriateness of the use of the product are varied (Churchill, 2006).

Term/Whole Life Policies A commonly offered micro life insurance policy. Term life policy is simple to offered and priced compared with other micro life insurance policies (Roth, 2006).	***India (see appendix 2.2)*** Aviva Life Activists for Social Alternatives (ASA) Shepherd Bajaj Allianz Life Insurance ***Ivory Coast*** Allianz Cote d'Ivoire Assurance Vie ***Colombia*** Allianz Colseguros ***The Philippines*** CARD Mutual Benefit Association (CARD MBA)	While savings-related insurance such as endowment policy covers the risk of death and accumulate cash value over the term of the policy, term life insurance does not build cash value. Hence, the insured often feel like their premiums are wasted if the insured event does not occur (Rusconi, 2006). For whole life policy, as the probability of death increases with age, it is essential to ensure that an adequate fund is accumulated to meet future claims especially in the case of a whole life policy in which the insured is covered for his/her entire life.
Savings Completion Insurance An innovative insurance policy which was designed in order to meet the demand for long-term savings and insurance of the poor. Such policies are of particular interest to credit unions (Roth, 2006).	***Poland*** TUW SKOK	Savings completion insurance can be viewed as less attractive than endowment policies because funds are held by credit unions rather than being invested by insurers. As a result, the policy is only a basic term life policy with a declining sum insured. However, it is an affordable group policy delivering high value to its policyholder as intermediary costs such as agent commissions are removed (Roth, 2006.)
Life savings policies One of the most popular products in the savings-linked insurance category. Normally, life savings policy pay-out is either equal to the savings balance at the time of death of the insured or multiples of the balance for accidental death. Such policies normally use a highly efficient	***Malawi*** Malawi Union of Savings and Credit Cooperatives (MUSCCO) ***Montenegro*** Opportunity International ***India*** VimoSEWA SEWA Bank	The major drawback of the product is the fact that savings balances are often low prior to policyholders' death as the money was withdrawn to pay for healthcare or to substitute for income losses. Basing policy pay-outs on the average savings can eliminate the problem. However, it is applicable only when past savings history is available and properly collected. As a result, it

premium collection method in which a percentage of savings is automatically deducted as premium payment (Roth, 2006).	***Sri Lanka*** Yasiru Mutual Provident Fund	would incur additional operation costs and would require higher actuarial skills but cover values would be enhanced.

Appendix 2.1: Examples of Endowment Policies in India

Product (Insurer)	Key Benefits		Eligibility		Product Features	
Gramin Bima Yojana (Kotak Mahibdra Life)	Death	100% of Single Premium in the 1st 2 years, 500% of Single Premium after the 2nd year	Entry Age	Min 18 Max 45	Sum Assured	Min 100% of Single Premium Max 500% of Single Premium
	Maturity	150% of Single Premium			Term of Policy	Min 15 years Max 25 years
	Additional Benefits	None			Amount of Premium	Min Rs. 200 Max Rs. 20000
	Surrender Value	80-135% of Single Premium			Premium Paying Method	Single Premium
	Availability of Loan	No			Exclusion	Suicide
This is like a fixed deposit along with insurance coverage.						
Alp Nivesh Yojana (Bajaj Allianz Life)	Death	Sum Assured + Bonus	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 30000
	Maturity	Sum Assured + Bonus			Term of Policy	Min 10 years Max 15 years
	Additional Benefits	Accident Rider			Amount of Premium	Min Rs. 293 Max Rs. 3364
	Surrender Value	Min 30% of Total Premium			Premium Paying Method	Monthly, Quarterly, Half-Yearly, Yearly
	Availability of Loan	No			Exclusion	Suicide
This is an endowment policy which pays bonus each year. This policy comes with an additional feature of accident rider benefits.						
Jana Vikas Yojana	Death	100% of Single Premium	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 10000 Max Rs.

(Bajaj Allianz Life)		in the 1st 2 years, 500% of Single Premium after the 2nd year				50000
	Maturity	125% of Single Premium			Term of Policy	Min 10 years Max 15 years
	Additional Benefits	None			Amount of Premium	Min Rs. 1638 Max Rs. 30880
	Surrender Value	Min 55% of Total Premium			Premium Paying Method	Single Premium
	Availability of Loan	No			Exclusion	Suicide
This is an endowment policy the feature of fixed deposit scheme as well as insurance plan.						
Met Vishwas (Metlife India)	Death	100% of Single Premium in the 1st 2 years, 500% of Single Premium after the 2nd year	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	110% of Single Premium for 5 year Policy, 125% of Single Premium for 10 year Policy			Term of Policy	Min 5 years Max 10 years
	Additional Benefits	None			Amount of Premium	Min Rs. 1127 Max Varies
	Surrender Value	60-120% of Single Premium			Premium Paying Method	Single Premium
	Availability of Loan	No			Exclusion	Suicide
This is like a fixed deposit along with insurance coverage.						
Met Suvidha Rural (Metlife India)	Death	Sum Assured + Bonus	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 74000
	Maturity	Sum Assured + Bonus			Term of Policy	Min 15 years Max 30 years
	Additional Benefits	None			Amount of Premium	Min Rs. 173 Max Varies
	Surrender Value	90% of Single Premium, 30% of Regular Premium			Premium Paying Method	Single Premium, Regular Premium
	Availability of Loan	No			Exclusion	Suicide

This is a long term endowment policy with the option of single premium as well as regular premium.						
Ayushman Yojana (TATA AIG Life)	Death	100% of Sum Assured	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	125% of Total Premium Paid			Term of Policy	10 years
	Additional Benefits	None			Amount of Premium	Min Rs. 1438 Max Rs. 30775
	Surrender Value	60-120% of Premium Paid			Premium Paying Method	Single Premium
	Availability of Loan	Yes			Exclusion	Suicide
This is a single premium endowment policy with loan facility.						
Sumangal Bima Yojana (TATA AIG Life)	Death	100% of Sum Assured	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 30000
	Maturity	60% of Total Premium Paid			Term of Policy	15 years
	Additional Benefits	Accident Rider			Amount of Premium	Min Rs. 356 Max Rs. 4782
	Surrender Value	40-92% of Premium Paid			Premium Paying Method	Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a low premium money back endowment policy which pays bonus in 6th, 9th, 12th year. In this policy, if two full year premium has been paid, the cover will prevail for period of 2 years from the date of 1st unpaid premium.						
Jeevan Madhur (LIC of India)	Death	100% of Sum Assured	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 30000
	Maturity	150% of Total Premium Paid			Term of Policy	Min 5 years Max 15 years
	Additional Benefits	200% of Sum Assured in case of Accidental Death			Amount of Premium	Min Rs. 100 (monthly) Max Rs. 500 (monthly)
	Surrender Value	30% of Total Premium			Premium Paying Method	Monthly, Quarterly, Half-Yearly, Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a low premium endowment policy with accidental coverage. In this policy, if two full year premium has been paid, the cover will prevail for period of 2 years from the date of 1st unpaid premium.						

Max Vijay Rajat (Max New York Life)	Death	Sum Assured + Premium Paid	Entry Age	Min 18 Max 50	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	Total Premium Paid			Term of Policy	10 years
	Additional Benefits	200% of Sum Assured + Premium Paid in case of Accidental Death			Amount of Premium	Min Rs. 1000 Max Rs. Varies
	Surrender Value	85-92.5% of Total Premium Paid after 3 years			Premium Paying Method	Yearly
	Availability of Loan	Yes			Exclusion	Suicide
This is a long term endowment policy with the lowest minimum premium in the Max Vijay Series It offers low premium and accidental coverage.						
Max Vijay Swarna (Max New York Life)	Death	Sum Assured + Premium Paid	Entry Age	Min 10 Max 50	Sum Assured	Min Rs. 7500 Max Rs. 75000
	Maturity	Total Premium Paid			Term of Policy	10 years
	Additional Benefits	200% of Sum Assured + Premium Paid in case of Accidental Death			Amount of Premium	Min Rs. 1500 Max Varies
	Surrender Value	85-92.5% of Total Premium Paid after 3 years			Premium Paying Method	Yearly
	Availability of Loan	Yes			Exclusion	Suicide
This is a long term endowment policy with the average minimum premium in the Max Vijay Series. It offers low premium and accidental coverage.						
Max Vijay Heera (Max New York Life)	Death	Sum Assured + Premium Paid	Entry Age	Min 10 Max 50	Sum Assured	Min Rs. 12500 Max Rs. 100000
	Maturity	Total Premium Paid			Term of Policy	10 years
	Additional Benefits	200% of Sum Assured + Premium Paid in case of Accidental Death			Amount of Premium	Min Rs. 2500 Max Rs. Varies
	Surrender Value	85-92.5% of Total Premium Paid after 3 years			Premium Paying Method	Yearly
	Availability of Loan	Yes			Exclusion	Suicide

This is a long term endowment policy with the highest minimum premium in the Max Vijay Series It offers low premium and accidental coverage.

Source: Centre for Micro Finance, Compendium of Micro Insurance Products

http://www.srtt.org/institutional_grants/pdf/compendium.pdf

Appendix 2.2: Examples of Term Life Policies in India

Product (Insurer)	Key Benefits		Eligibility		Product Features	
Amar Suraksha (Aviva Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 45	Sum Assured	Min Rs. 20000 Max Rs. 100000
	Maturity	Total premium paid			Term of Policy	Min 5 years Max 20 years
	Additional Benefits	None			Amount of Premium	Min Rs.500 Max Varies
	Surrender Value	Premium is returned after 3 years			Premium Paying Method	Half Yearly, Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a pure term insurance policy with no benefits payable on maturity. In this policy, there is a flexibility to pay either in single premium or in regular premium.						
Grameen Suraksha (Aviva Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 45	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	Total premium paid			Term of Policy	Min 5 years Max 10 years
	Additional Benefits	No			Amount of Premium	Min Rs. 1800 Max 3250
	Surrender Value	Available			Premium Paying Method	Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a term insurance policy with total premium paid back on maturity. In this policy, only two yearly premiums are to be paid.						
Jana Suraksha (Aviva Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 45	Sum Assured	Min Rs. 20000 Max Rs. 50000
	Maturity	No benefits payable			Term of Policy	Min 5 years Max 10 years
	Additional Benefits	Accident Rider			Amount of Premium	Min Rs. 140 Max Rs. 480
	Surrender Value	None			Premium Paying Method	Monthly, Quarterly, Half Yearly, Yearly

	Availability of Loan	No			Exclusion	Suicide
This is a term insurance policy with a highly flexible premium payment method. Premiums can be paid monthly, quarterly, semi-annually or annually.						
Saral Suraksha (Bajaj Allianz Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 10000 Max Rs. 50000
	Maturity	Total premium paid			Term of Policy	10 years
	Additional Benefits	Accident Rider			Amount of Premium	Min Rs. 360 Max Rs. 5324
	Surrender Value	Min 30% of Total premium paid			Premium Paying Method	Monthly, Quarterly, Half Yearly, Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a term Insurance policy with only premium without any benefit is paid back on maturity. In this policy, there is an option to take accident rider along with the main policy. This policy has good coverage in terms of age.						
Swayam Shakti Suraksha (Bajaj Allianz Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 65	Sum Assured	Rs. 2500 (per member)
	Maturity	Total premium paid			Term of Policy	5 years
	Additional Benefits	None			Amount of Premium	Min Rs. 500 Max Varies
	Surrender Value	70% of Total premium paid			Premium Paying Method	Monthly, Quarterly, Half Yearly, Yearly
	Availability of Loan	Yes			Exclusion	Suicide
This is a group based term insurance policy with surrender and maturity benefits payable. As it is a group Insurance policy, the minimum number of people in the group should be 50.						
Bima Kavach (Birla Sun Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 50	Sum Assured	Min Rs. 5000 Max Rs. 20000
	Maturity	110% of Total Premium			Term of Policy	3 years
	Additional Benefits	None			Amount of Premium	Min Rs. 50 Max Rs. 200
	Surrender Value	104-108% of Premium			Premium Paying Method	Single Premium
	Availability of Loan	No			Exclusion	Suicide
This is a term insurance policy with best in the industry return on maturity and surrender on such low premium product. Besides this, there is an any time surrender facility in the product In case of suicidal death, the premium is returned back.						
Bima Suraksha Super	Death	100% of Sum Insured	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 50000

(Birla Sun Life)	Maturity	None			Term of Policy	Min 5 years Max 15 years
	Additional Benefits	Accident Rider			Amount of Premium	Min Rs. 150 Max Rs. 1425
	Surrender Value	No			Premium Paying Method	Monthly, Quarterly, Half Yearly, Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a pure term insurance policy with no benefits payable in maturity. This policy gives insurance coverage to people only up to the age of 60 years and the premium is to be paid on yearly basis for the whole term of policy.						
Bima Dhan Sanchay (Birla Sun Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	Total Premium Paid			Term of Policy	Min 5 years Max 15 years
	Additional Benefits	Accident Rider			Amount of Premium	Min Rs. 275 Max Rs. 3275
	Surrender Value	20-90% of Premium Paid			Premium Paying Method	Monthly, Quarterly, Half Yearly, Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a term Insurance policy with total premium is paid back on maturity. In this policy a grace period of 180 days is given to pay the due instalments.						
Sarv Jana Saraksha (ICIC Prudential)	Death	100% of Sum Insured	Entry Age	Min 18 Max 55	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	None			Term of Policy	5 years
	Additional Benefits	None			Amount of Premium	Min Rs. 50 Max Rs. 500
	Surrender Value	None			Premium Paying Method	Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a single premium term insurance policy with maturity and surrender value benefits. This policy gives insurance coverage to the people only up to the age of 55 years, but the sum assured is very low in the product						
Gramin Bima Mitr Yojana (HDFC Standard Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 50	Sum Assured	Rs. 5000
	Maturity	150% of Premium			Term of Policy	3 years
	Additional Benefits	None			Amount of Premium	500
	Surrender Value	100-130% of Premium			Premium Paying Method	Single Premium
	Availability of Loan	No			Exclusion	None
This is a single premium three year term insurance policy with maturity and surrender value benefits. The Sum assured is very low in the product						

Bima Bachat Yojana (HDFC Standard Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 50	Sum Assured	Rs. 5000
	Maturity	200% of Premium			Term of Policy	5 years
	Additional Benefits	None			Amount of Premium	Rs. 500
	Surrender Value	100-170% of Premium			Premium Paying Method	Single Premium
	Availability of Loan	No			Exclusion	None
This is a single premium five year term insurance policy with maturity and surrender value benefits. The Sum assured is very low in the product						
Development Insurance Plan (HDFC Standard Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 50	Sum Assured	Rs. 10000
	Maturity	None			Term of Policy	1 years
	Additional Benefits	200% of Sum Insured in case of Accidental Death			Amount of Premium	Min Rs. 25
	Surrender Value	None			Premium Paying Method	Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a pure term insurance policy with no maturity and surrender value benefits. This policy gives an additional benefit in case of accidental death. The premium of this policy is very low in comparison to other products.						
Microinsurance (IDBI Fortis Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	150% of Total Premium			Term of Policy	5 years
	Additional Benefits	Accidental Rider			Amount of Premium	Varies
	Surrender Value	None			Premium Paying Method	Monthly, Quarterly, Half-Yearly, Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a group based term insurance policy with maturity benefits but no surrender value. This policy gives an additional benefit of accident rider. But, in this policy the grace period is only of 15 days.						
Rural Term Plan (Aegon Religare Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 55	Sum Assured	Min Rs. 10000 Max Rs. 50000
	Maturity	110% of Premium			Term of Policy	5 years
	Additional Benefits	None			Amount of Premium	Min Rs. 100 Max Rs. 500
	Surrender Value	100-109% of Premium			Premium Paying Method	Single Premium
	Availability of Loan	No			Exclusion	Suicide
This is a term insurance policy with maturity benefits as well as surrender value. This policy has an additional feature of changing the sum assured during the policy term.						

Bachat Kavach (Star Union Daichi Life)	Death	100% of Sum Insured	Entry Age	Min 16 Max 64	Sum Assured	Rs. 1000 (per member)
	Maturity	None			Term of Policy	1 year
	Additional Benefits	None			Amount of Premium	Varies
	Surrender Value	None			Premium Paying Method	Half-Yearly, Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a group based pure term insurance policy with no maturity benefits or surrender value. It is an annual policy with the option of renewal every year.						
Paraspar Suraksha (Star Union Daichi Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 50	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	None			Term of Policy	n.a.
	Additional Benefits	None			Amount of Premium	Min Rs. 33.5 Max Rs. 335
	Surrender Value	Yes			Premium Paying Method	Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a pure term insurance policy with no maturity benefits or surrender value. It is a low premium policy with annual premium being as low as Rs.33.50						
Group Savings Linked Insurance Policy (Star Union Daichi Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 50000 (per group) Max No Limit
	Maturity	Total Premium Paid			Term of Policy	1 year
	Additional Benefits	None			Amount of Premium	Min Rs. 1200 Max No Limit
	Surrender Value	Total Premium Paid			Premium Paying Method	Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a group based term insurance policy with maturity benefits and surrender value. It is an annual policy with the option of renewal every year. Only groups having more than 50 members are eligible for this policy.						
Jan Kalyan (Sahara India Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 50	Sum Assured	Min Rs. 10000 Max Rs. 25000
	Maturity	None			Term of Policy	1 year
	Additional Benefits	200% of Sim Assured in Accidental Death			Amount of Premium	Min Rs. 100 Max Rs. 250
	Surrender Value	No			Premium Paying Method	Yearly
	Availability of Loan	No			Exclusion	Suicide

This is a group based pure term insurance policy with no maturity benefits or surrender value. This policy provides a double coverage in case of accidental death.						
Navkalyan Yojana (TATA AIG Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	None			Term of Policy	5 years
	Additional Benefits	Accident Rider			Amount of Premium	Min Rs. 58 Max Rs. 2440
	Surrender Value	No			Premium Paying Method	Monthly, Quarterly, Half-Yearly, Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a group based term insurance policy with no maturity benefits or surrender value. This policy comes with an additional feature of accident rider benefits						
Sampoom Bima Yojana (TATA AIG Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 60	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	Total Premium Paid			Term of Policy	15 years
	Additional Benefits	Accident Rider			Amount of Premium	Min Rs. 129 Max Rs. 4955
	Surrender Value	30% of Premium Paid			Premium Paying Method	Monthly, Quarterly, Half-Yearly, Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a term insurance policy with maturity benefits and surrender value. In this policy, premium is paid for 10 years and the coverage is for 15 years.						
Grameen Shakti (SBI Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 50	Sum Assured	Min Rs. 5000 Max Rs. 50000
	Maturity	50-100% of Premium Paid			Term of Policy	Min 5 years Max 10 years
	Additional Benefits	None			Amount of Premium	Min Varies Max Varies
	Surrender Value	30-65% of Premium Paid			Premium Paying Method	Yearly
	Availability of Loan	No			Exclusion	Suicide
This is a pure term insurance policy with no additional benefits and no availability of loan.						

Grameen Super Suraksha (SBI Life)	Death	100% of Sum Insured	Entry Age	Min 18 Max 50	Sum Assured	Min 30 times of Single Premium or 150times of Yearly Premium
	Maturity	None			Term of Policy	5 years
	Additional Benefits	None			Amount of Premium	Min Varies Max Varies
	Surrender Value	None			Premium Paying Method	Single Premium, Yearly Premium
	Availability of Loan	No			Exclusion	Suicide
This is a group based pure term insurance policy with no maturity benefits or surrender value.						
Janshree Bima Yojana/Pannadhay Jeevan Amrit Yojana (LIC)	Death	100% of Sum Insured, 250% of Sum Insured in case of Accidental Death	Entry Age	Min 18 Max 59	Sum Assured	Rs. 30000
	Maturity	None			Term of Policy	1 year
	Additional Benefits	Total Disability Rs. 75000, Partial Disability Rs. 37500			Amount of Premium	Rs. 200
	Surrender Value	None			Premium Paying Method	Single Premium
	Availability of Loan	No			Exclusion	Suicide
This is a group based pure term insurance policy with no maturity benefits or surrender value. But certain additional benefits are available in this policy such as accident coverage without any additional premium. Educational scholarship of Rs.300 per quarter available for children studying IX to XII std. For a maximum of 2 children under 'Shiksha Sahayag Yojana. Besides this, the government also pays a subsidy of 50% on the premium payable.						

Source: Centre for Micro Finance, Compendium of Micro Insurance Products

http://www.srtt.org/institutional_grants/pdf/compendium.pdf

Appendix3: The 'Aue Ar Thorn' Insurance Programme

Regimes	**Coverage details**	**Pay-outs**
1. Premiums 365 baht/year	Accidental death/permanent disability from motorcycle accidents, sustained either as the driver or a pillion rider of the motorcycle	100,000 baht
	Accidental death/permanent disability from other causes	300,000 baht
2. Premiums 500 baht/year	Accidental death/permanent disability from motorcycle accidents, sustained either as the driver or a pillion rider of the motorcycle	100,000 baht
	Accidental death/permanent disability from other causes	300,000 baht
	Death caused by illness(funeral expense)	10,000 baht
3. Premiums 515 baht/year	Accidental death/permanent disability caused all types of accidents	300,000 baht
4. Premiums 650 baht/year	Accidental death/permanent disability caused all types of accidents	300,000 baht
	Death caused by illness(funeral expense)	10,000 baht
5. Premium 50baht/year (Student programme)	Accidental permanent disability	100,000 baht
	Loss of two or more limbs	100,000 baht
	Loss of one limb	60,000 baht
	Accidental death	30,000 baht
	Death caused by illness (funeral expense)	10,000 baht

Note1: The student programme, introduced in 2004, was a voluntary programme targeted at students from kindergarten to Matthayom6 (grade 12).

Note2: Coverage was later extended to include riots, strikes and terrorism risks in the five southern provinces of Thailand (Yala, Patani, Narathiwat, Songkla, Satun).

Source: The Office of Insurance Commission

Appendix4: Currently Approved Micro Life Insurance Regimes in Thailand

Products	Micro Life Insurers	Coverage Details	Pay-outs/Premiums
1. Endowment policy	Muang Thai Life Assurance Co. Ltd	Death benefit or lump sum survival benefit 1.1 Muang Thai Yim Mung Mee - Period of insurance 20 years - Premium payment period 15 years 1.2 Muang Thai Yim Mun Jai - Period of insurance 25 years - Premium payment period 15 years	1.) Maximum sum insured 100,000 baht 2.) Premium rates vary according to age of the insured but no more than 500 baht/ month
2. Term life policy	2.1 Muang Thai Life Assurance Co. Ltd	Death benefit 2.1 Muang Thai Yim Mun Kong - Period of insurance 5 years - Premium payment period 5 years	1.) Maximum sum insured 100,000 baht 2.) Premium rates vary according to age of the insured but no more than 1,000 baht/ month

	2.2 Bangkok Life Assurance PCL	2.2 Microinsurance – Bangkok Life Assurance - Period of insurance 1 year - Premium payment period 1 year	
	2.3 Allianz Ayudhya Assurance PCL	2.3 Ayudhya Term 5/5 - Period of insurance 5 year - Premium payment period 5 year	
	2.4 Ocean Life Insurance Co. Ltd	2.4 Kum sud 365 (Industrial 365) - Period of insurance 1 year - Premium payment period 1 year	1.) Sum insured varies according to age and gender of the insured 2.) Premiums 365 baht
		Kum sud 500 (Industrial 500) - Period of insurance 1 year - Premium payment period 1 year	1.) Sum insured varies according to age and gender of the insured 2.) Premiums 500 baht

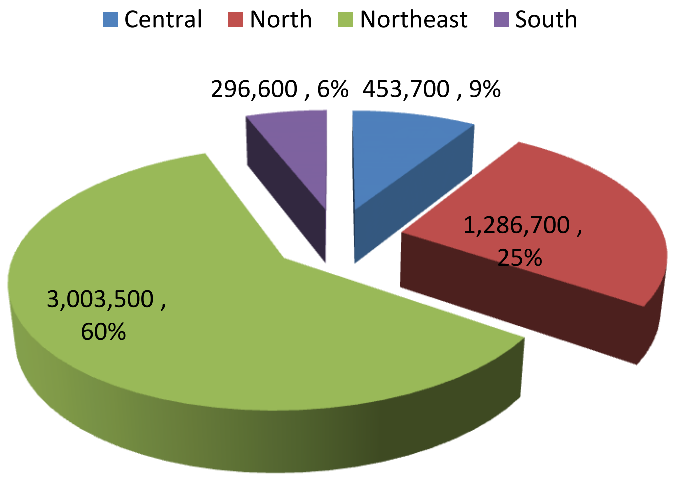
Appendix5: A Closer Look at the Low-Income Thais

All the poor are in the informal sector but the majority of people in the informal economy are poor. Not all the poor are the same. They can be largely divided into two groups, according to income levels, as the poorest of the poor and the working poor. However, by geography, they can be divided into the urban poor and the rural poor. Having a clear segment of the poor, who are the target market of micro life insurance, will help microinsurers to be able to identify their demands, earnings, savings and consumption patterns in order to ensure that the products meet their demands and ensure their accessibility to the products. Thus these are key factors in determining a successful implementation of the programme.

The Poorest of the Poor

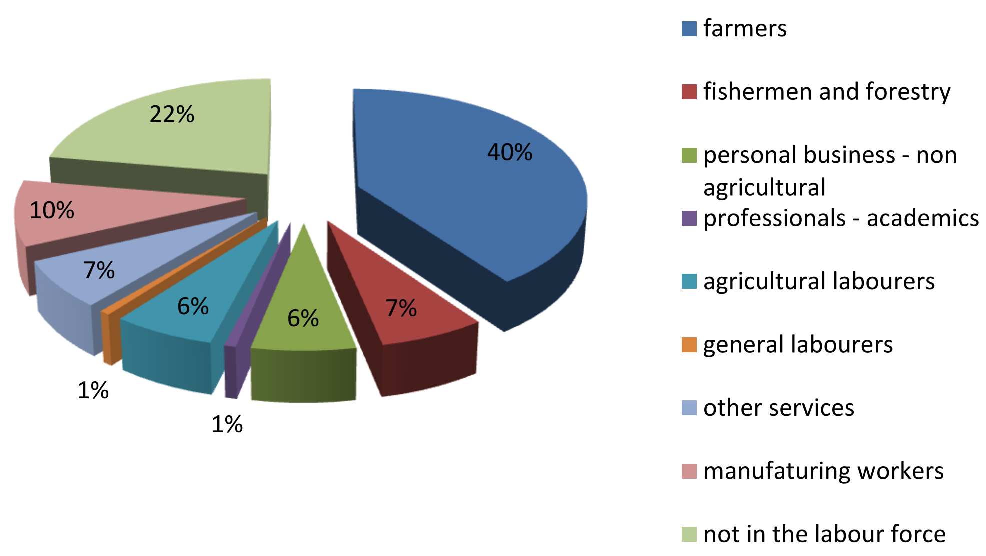
As of 2010, around 5.1 million people (7.75 per cent of the total population) were below the national poverty line[40]. The majority of the poor were in the North-eastern part of the country (NESDB, 2012). The diagram below shows that the majority of people in this group are farmers. The poorest of the poor are people whose incomes are inadequate to cover basic needs in lives, left alone paying for insurance premiums. Thus this is not the group that a privately-run micro life insurance scheme can serve, and this should not be the case. Government interventions such as public insurance and private insurance premium subsidies are crucial in order to allow this group to have access to micro life insurance as a tool to help support their lives after retirement.

Number of the Poor by regions (data as of 2010)



Source: the National Economic and Social Development Board of Thailand

The Distribution of the total poor population by occupation (data as of 2009)



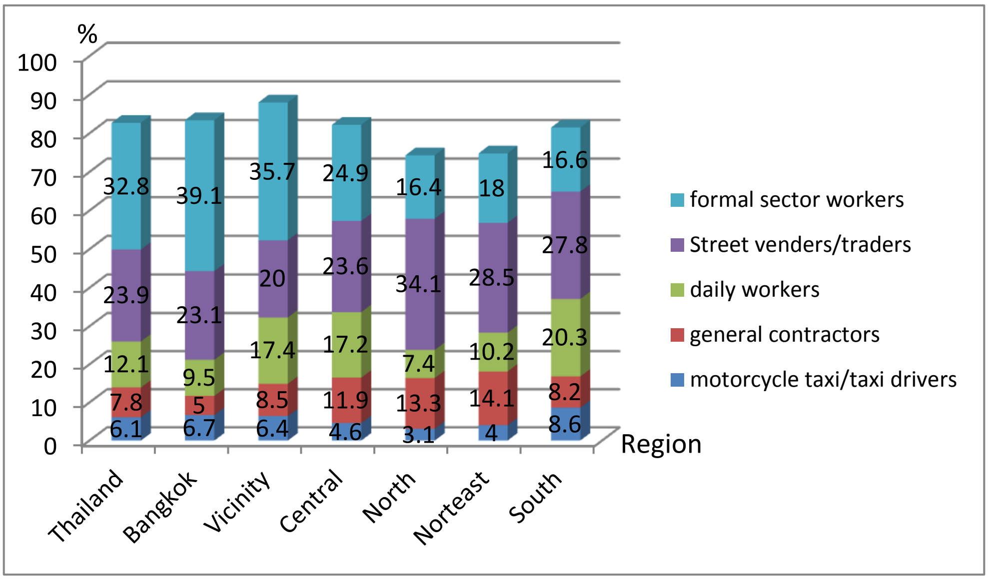
Source: the National Economic and Social Development Board of Thailand

The Working Poor: Rural Poor versus Urban Poor

As mentioned in chapter 2, the informal sector workers represent more than half of the total Thai workforce, and the majority of people in this group are poor. In rural areas, informal sector workers are from agricultural sector, mainly farmers. More than half of the poor are from this group of people (the National Statistical Office, Thailand). Informal sector workers in urban areas include motorcycle taxi/taxi drivers, street vendors and daily workers.

In the study conducted by the National Statistics Office in 2006, 34 per cent of people aged 15 years old and older in urban low-income communities in Thailand are unemployed. About half of the employed people are informal sector workers. Most of them are street vendors/traders (23.9 per cent), daily workers (12.1 per cent), general contractors (7.8 per cent) and motorcycle taxi/taxi drivers (6.1 per cent). Bangkok and its vicinity have the highest percentage of formal sector workers compared with other regions of Thailand (39.1 per cent and 35.7 per cent respectively).

Major Categorisation of Informal Occupations by Regions



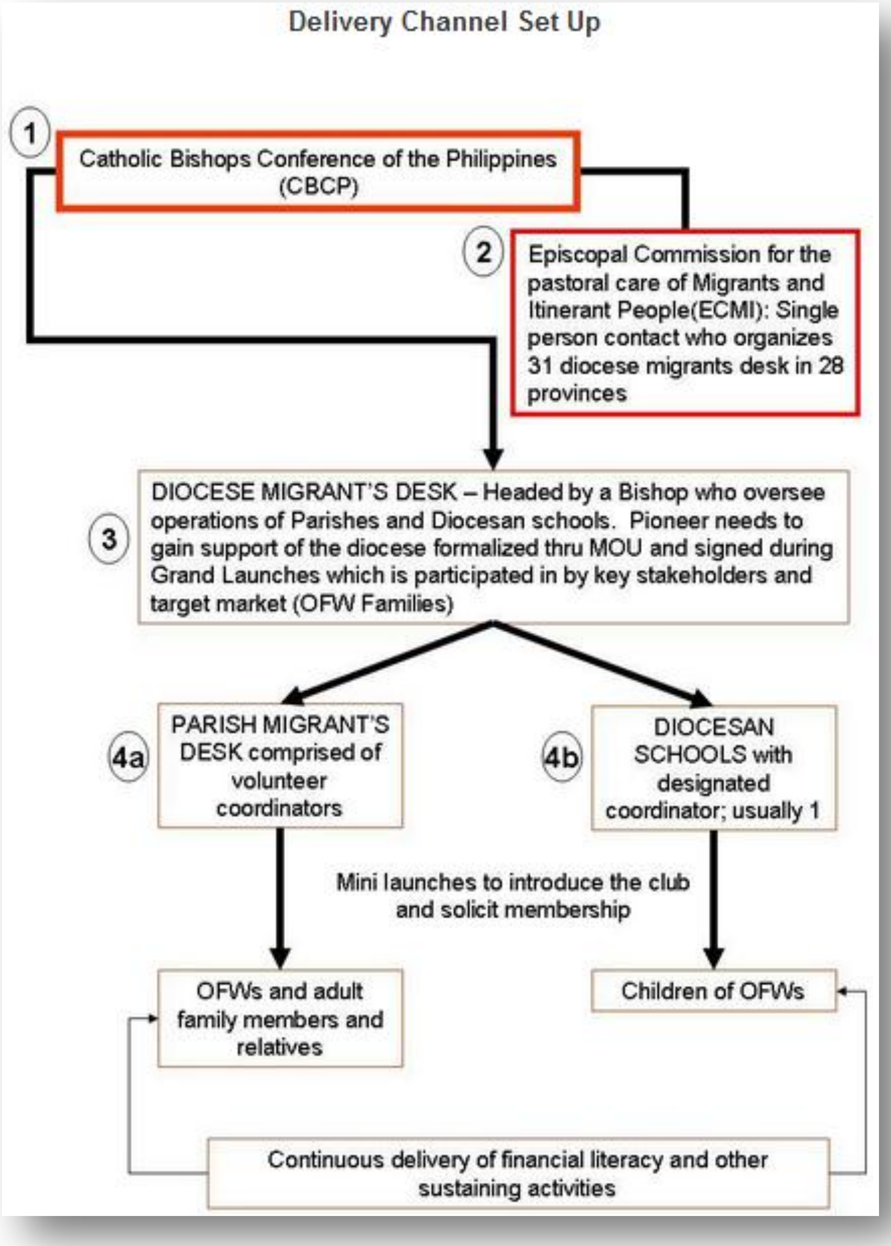
Source: the National Economic and Social Development Board of Thailand

Income and consumption pattern of rural Thais and urban Thais are different. People in urban and rural areas consume on average 103,137 and 67,456 baht/person/year respectively. People in rural areas spend 35 per cent less than those in the cities. The spending gap for the elderly is the highest among all age groups. In particular, the elderly in upcountry spend 42 per cent less than those in the cities. According to the study by TDRI, provisions for the elderly come from three main sources: private savings, family supports and government subsidy. The study found that the elderly in urban areas have income from working, assets and family while the elderly in rural areas depend mainly on revenues from labour and assets not from family. People age 25-59 in the cities spend 52per cent in consumption, 37per cent in subsidising family members and 12per cent in subsidising others through government mechanisms. Due to a lower income, those in rural areas spend 77per cent of their incomes in consumption therefore not much is left for subsidising family members and others. Thus a traditional belief that the elderly are mainly subsidised by family members does not hold true. In fact, children are still subsidising their parents but the amount tends to very little and insufficient due to their limited incomes and financial constraints. This is a challenging fact for the government. Additionally, wealth accumulation phases for both rural and urban Thais are short, age 26-62 and 31-55 for urban and rural Thais respectively. The elderly still have to work and rely on asset generated income to sustain themselves. The ratio of working adult to elderly will be 1.6:1 in 2039 compared to 4:1 in 2009. The study stresses the importance of government to encourage private savings. At the present, 8.1 million elderly, mainly rural Thais, still have to work after retirement age. 37.8per cent of the elderly have revenue from work but this is insufficient for consumption. On average, the consumption of Thai elderly is more than income by 30,600 baht/person/year. 68.7per cent of Thai elderly have enough savings to cover this but half of them have savings less than 50,000 baht (TDRI, 2012). The fact that the elderly especially in rural areas depend highly on their own labour to sustain themselves, rather than depend on their family support is a striking fact. This is mainly because family units in rural areas have always been seen as much closer than those in the cities, and the family culture and family tight is much stronger than those in urban areas. This stresses one of the most critical problems for the government and Thai society as a whole as the elderly cannot work for the rest of their lives. There is a need for an immediate and effective solution regarding how the provision for the elderly should be arranged in a way that is sustainable and will not cause future economic/social problems (TDRI, 2012).

Appendix 6: Lessons from Micro Life Insurers Abroad

1. Religious Organizations

A micro life insurance provider in the Philippines, Pioneer Life Inc., offers its products through schools and churches, using savers and wellness clubs set up by the church in target provinces. Community leaders, school coordinators and club facilitators work together to ensure the successful implementation of the programme. Technology such as mobile money and ATMs are also used to facilitate premium collections (Microinsurance facility, 2012).

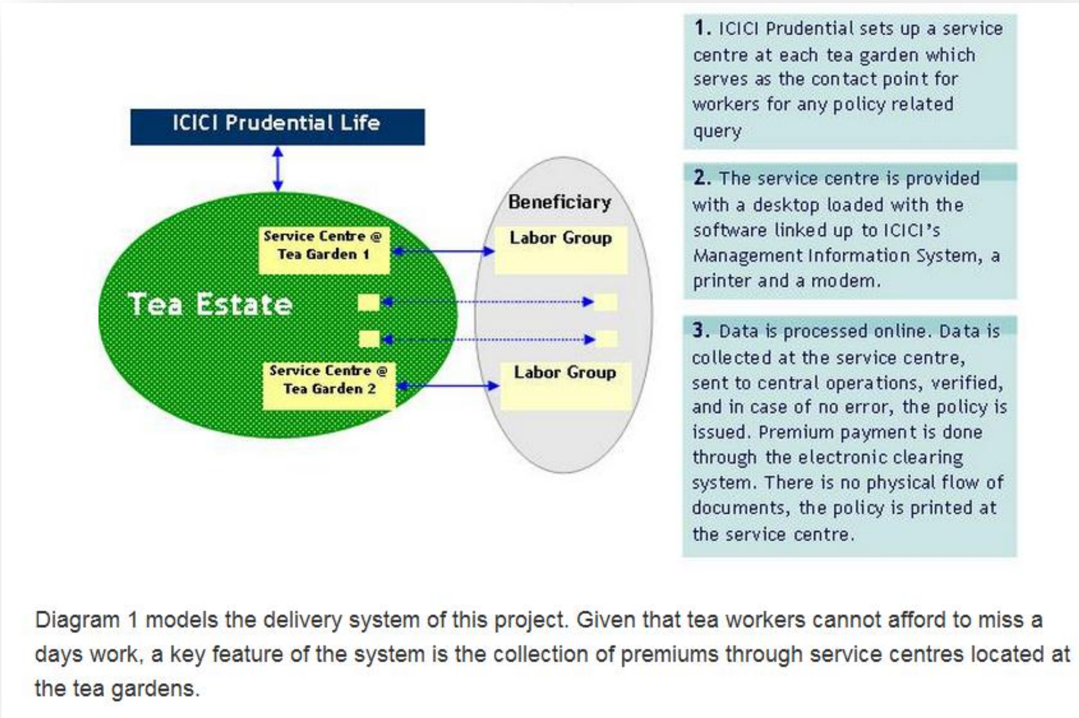


Source: Microinsurance facility, 2012

http://www.microinsurancefacility.org/en/learning-journey/ofw-family-savers-and-wellness-club

2. Intermediary agencies

ICIC Prudential Life Insurance in India is offering its micro life insurance product to the tribal tea plantation labourers. A term life policy with a savings component is being distributed through intermediary agencies in the target communities. Such an aggregating distribution channel, supported by technology such as an online service delivery system, helps minimise transaction costs and thus reduce premiums and increase affordability of the product. It also helps increase customer satisfaction and the efficiency of the programme. Intermediary agencies have responsibilities to create awareness, enrol policyholders, collect premiums, facilitate claims payment and service their customers (Microinsurance facility, 2012).



Source: Microinsurance facility, 2012

http://www.microinsurancefacility.org/en/learning-journey/microinsurance-tribal-tea-plantation-laborers-north-east-india

3. Rural water associations

La Positiva in Peru is offering micro life insurance products to farmers via rural water associations throughout the country. The associations comprises of 112 affiliated rural water boards, 66 in the coastal areas, 35 in the mountain areas and 11 in the forest areas. There are 1,538 irrigation commissions and 11,550 managers managing 1,452,000 hectares of land across the nation. The collaboration allows the insurers to distribute its products through the irrigation service network by simple adding premium payments to water bills (Microinsurance facility, 2012).

3. A network of agents and food retailers

Using a network of company agents across South Africa, Old Mutual is offering two main categories of micro life insurance products, group policy and individual policy, to the low income market. Group policy emphasises on selling formal funeral insurance to burial societies, affinities, churches, savings groups, agricultural groups and villages. The coverage selected by the group applies to all group members. Individual products are distributed through ShopRite, one of the largest food retailers in the country. The policy design is similar to mobile phone retail products. Policyholders can purchase a starter pack which includes basic registration and policy details, and policyholders can select additional top-ups which suit them. After purchase, registration and top-ups can be completed by simply sending a text SMS, with a specific PIN number, to the company (Microinsurance facility, 2012).

Source: http://www.microinsurancefacility.org/en/learning-journey/accessing-low-income-market

Appendix 7: An Example from Protecta

As many providers of microinsurance often find it challenging to make the benefits of micro life insurance tangible to low-income markets. An experience of a highly successful specialised micro life insurance in Peru, Protecta, shows that adding tangible benefits to a micro life insurance product can increase its attractiveness. Their micro life insurance products are offered along with a Protecta card which gives discounts at affiliated health, education and recreational facilities. Both the insured and the municipalities where products are distributed felt the attractiveness of the supplementary health benefits. Product coverage is negotiated collectively at the municipality level and is offered to residents as they pay for public services (Microinsurance facility, 2012).

Footnotes

1. These two perspectives were distinguished by Churchill C. et al. (2012) in 'Current Trends in Microinsurance', Protecting the poor: A microinsurance compendium Volume 2.

2. According to the United Nations, ageing society is a society where 7 per cent of total population are 65 years old and older or more than 10 per cent of total population are 60 years old and older. Aged society is a society where the number of persons 65 years old and older increases to 14 per cent of total population and the number of persons 60 years old and older increase to 20 per cent of total population

3. This is mainly as a result of medical advancement and improved healthcare services. The average life spans of Thais are 79 years for males and 81.5 years for females.

4. This is mainly because of inadequate savings due to a lack of a well structured personal financial plan. A survey conducted by the National Statistic Office and the Ministry of Social Development an d Human Security and the College of Population Studies of Chulalongkorn University in 2007 found that approximately 95 per cent of respondents are aware of the importance of financial preparation for retirement. Sadly, 42.4 per cent of respondents have not started to plan or even think of their retirement plans (Sakunphanit et al., 2011). The elderly in the formal and informal economy earn an average monthly income of 11,199 baht and 3,143 baht respectively (PRD, 2011).

5. The OECD Social Expenditure Database groups benefits with a social purpose in nine policy areas - Old-age, Survivors, Incapacity-related benefits, Health, Family, Active labour market policies, Unemployment, Housing, and Other social policy areas (Adema, 2009).

6. Examples of informal sector workers are employees of foreign governments or international organizations, agricultural, forestry, and fishery employees, temporary and seasonal workers and Thai citizens working abroad (ISSA, 2011).

7. Poverty line is 1,443 baht/person/month. In 2007, there were 5.4 million poor (8.5 per cent of the total population)

8. As contributions (100 baht/month) are low compared to the benefits (1,000 baht/month) paid out, and the fund was designed in such a way that government contribution will be made to support and create incentive for members to save. According to many academics, the fund can create a burden for the government up to 20,000 million baht depending on the actual numbers of members (Ruengsirikulchai, 2009).

9. Source: The Ministry of Finance Public Announcement http://www.fpo.go.th/FPO/index2.php?mod=Category&file=categoryview&categoryID=CAT0001125

10. The first option is for these workers to make a monthly contribution of 100 baht to have coverage over three areas which are hospitalisation benefit of 200 baht per day for 2-20 days per year, disability benefit of 500-1,000 baht per month for 15 years and a funeral expense of 20,000 baht. The second option involves a monthly contribution of 150 baht. Workers receive the same first three benefits under this plan with an additional lump sum pension at retirement.

11. After the insured bought an 'Aue Ar Thorn' insurance card from these distribution channels, they must call a call centre 1356 in order to activate their policies. The insured must inform the call centre of their 'Aue Ar Thorn' insurance card number, first name, last name, date of birth, national ID card number of the insured, first name and last name of the

beneficiaries such as spouse, son, daughter, father, and mother. After all information has been submitted, policy approval number, including the starting date and ending date of the policy, will be given to the insured to fill into their cards. Their coverage then starts on 12.00 noon of the next day.

12. As of 2012, the Bank of Agriculture and Agricultural Co-operatives has 906 branches in every regions of Thailand.

13. The top five provinces in terms of demand were Nakhon Ratchasima, Nakhonsawan, Lopburi, Ayutthaya and Suphanburi.

14. There were 41 non-life insurers and 9 life insurers participated in the programme. This number was later dropped more than half because of losses. The 9 participated life insurers were AIA, Thai Life Assurance, Ayudha Allianz C.P. Life Assurance, Bangkok life Assurance, Muang Thai Life Assurance, Siam Commercial New York Life Assurance, Millea Life Assurance, Finansa Life Assurance and Ocean Life Insurance (TLAA, 2012)

15. 300 baht premium and 550 baht premium regimes

16. The Insurance Development Plan 1 was written to correspond with the 10th National Economic and Social Development Plan. The Insurance Development Plan 1 was written by the previous regulator of insurance industry in Thailand, the Department of Insurance which was under the Ministry of Commerce. However, the Insurance Development Plan 2 (2010-2014). In addition the Insurance Development Plan 1 also promoted innovative life insurance product development such as life annuity, which can increase long-term savings to support the aging society. It also promoted an increase in tax benefits of life insurance policies (Wanglee, 2006).

17. The old regulation stated clearly that only a corporation that was established for a sole purpose of becoming an insurance intermediary can act as insurance broker. In addition, the new regulation also allow brokers to hold both life and non-life insurance licenses. This was also not permitted under the old regulation.

18. Source: the Office of Insurance Commission (2012), the List of Approved Micro Life Insurance Regimes in Thailand. Accessed on 5 June 2012. Available at http://www.oic.or.th/downloads/knowledge/micro.pdf (in Thai)

19. Government Savings Bank, Bank for Agriculture and Agricultural Cooperatives, SME Bank, Government Housing Bank, Islamic Bank of Thailand and Krung Thai Bank (Siamturakij, 2010).

20. Bank for Agriculture and Agricultural Cooperatives together with Thai Life Assurance arrange credit life insurance policies for 270 thousand customers covering four years term (1 October 2010 - 30 September 2014) with premiums around 280 million baht to reduce risk of non performing loans and also to prevent debt burden from falling onto family members of the debtors Bank of Agriculture and Agricultural Co-operatives, 2010).

21. In contrast to credit-linked insurance, savings linked insurance allows the insured to have coverage without being in debt (Enarsson110110110110110110, 2006).

22. In case of an emergency use of fund, the insured of policies which accumulate cash value can access their funds by either applying for a policy loan or surrendering the policy at the surrender value.

23. The Thai government is currently promoting the use of long-term life insurance as a means of savings by giving preferential tax treatments to policyholders, and additional tax

benefits were recently introduced in October 2011 especially for insurance which can be used as a retirement plan such as life annuities insurance. In October 2011, the cabinet has increased the amount of annuity life insurance premium that can be used to file for an individual income tax exemption. As a result, the insured can enjoy a maximum of 300,000 baht of tax exemption. Many life insurers have launched new retirement annuities. Annuity life policies that are qualified for tax exemption must have more than 10 years term, the annuities must be paid since the insured is 55 years old until he/she is over 85 years old, and the policy must not pay any other benefits except the retirement annuities and death benefits. According to Mr. Sutti Rajitrangson, the president of the Thai Life Assurance Association (TLAA), these special tax benefits on annuity life insurance helps encourage people to save for their retirements and create a security for themselves in their old age in the forms of annuity life insurance. This increases choices of long term savings for people. It helps reduce social problems resulting from an aging society, and decreases future government spending in providing social security for the elderly. This type of insurance is recommended for people between 30-55 years old. Insurance companies currently offering annuity life insurance are Muang Thai Life Assurance, American International Assurance (AIA), ING Life and TMB bank. The Office of Insurance Commission (OIC) approved annuity life policies have similar details such as the insured must be between 30-55 years old, an equal amount of annual annuity is promised to be paid back to the insured starting when he/she either turns 55 or 60 years old according to the preference of the insured. Retirement annuities paid back to the insured are around 12 per cent of the sum insured. For example, the 8555 annuity life insurance by Muang Thai Life Assurance is designed for people between ages 30-50 with 1 million baht sum insured. The insured can choose their preferred premium payment schemes to be either monthly, quarterly, semi-annually or annually. Premiums are varied depends on age and gender of the insured. Benefits include a yearly pay out of 120,000 baht (12 per cent of the sum insured) starting when the insured turn 55 years old until 85 years old and a death benefit (Revenue Department, 2010; the Office of Insurance Commission, 2009)

24. Source: Thaiprasert L. (2012), Fiscal Policies to Reduce Income Inequality in Thailand. Accessed on 10 July 2012. Available at http://prp.trf.or.th/ContentView.aspx?id=150&page=3 (in Thai)

25. Different models and structures of microinsurance provision around the globe can be largely summarised as (1) partnerships between insurance companies and distributors such as cooperatives and MFIs (2) regulated microinsurers (3) community-based schemes which involve fund pooling and risk management among members (4) state-run/government subsidised microinsurance programmes (5) self-insuring MFIs offering microinsurance products while retaining risks to themselves (Churchill, 2006). Examples of microinsurance providers include microfinance institutions, community-based organisations (CBOs), non-governmental organisations (NGOs), member-owned mutual, commercial insurers, and government. Delivery channels are the ones that are not only close to but also familiar with low-income communities such as religious organisations, retailers, community-based organisations (CBOs) and non-governmental organisations (NGOs).

26. An effective capital market is an essential requirement for the success of insurance and long term savings. A good financial sector infrastructure is particularly crucial for endowment policy because the insurance company depends heavily on investments to generate returns (Roth et al., 2006). Thailand has a well established financial sector

infrastructure equipped with investment opportunities such as stock market, fixed income market and derivatives market

27. Protecta, launched in 2008, is a specialised micro life insurance provider in Peru. The company, originally planned to become profitable in 2014, is already on became profitable in 2012. Its main products are life insurance and pension annuities to low-income people (Kurmanaev, 2011).

28. Source: Roth J. et al. (2006), Long-term savings and insurance, Protecting the poor: A microinsurance compendium. Accessed on 6 May 2012. Available at http://www.microfinancegateway.org/p/site/m//template.rc/1.9.29231

29. Micro life insurance is an intangible product in which benefits are payable years after premiums are paid. Trust is crucial in order to purchase a promise to pay in the future. Besides the timeliness of claim payment, flexible premium payment schedule taking into account the typically irregular incomes of the poor is an important factor to bridge trust (Wharton, 2010).

30. Tata-AIG in India used to work with an MFI to distribute its endowment products. However, the model proved to fail because of a conflict between the short term nature of the MFI loan and the long term nature of endowment policies (Roth et al., 2006).

31. These five ways are written for microinsurance in general, and therefore is applicable to micro life insurance. Source: Deblon Y. et al. (2012), The Potential of Microinsurance for Social Protection, Protecting the poor: A microinsurance compendium Volume 2. Accessed on 22 May 2012. Available at http://www.ilo.org/global/publications/books/WCMS_175786/lang--en/index.htm

32. The system covers only 10 per cent of the working population. The share of informal sector workers is negligible. They represent around 1 per cent of the total members (Boon, 2007; Giesbert, 2010).

33. Source: The Ministry of Finance (2012), the National Savings Fund Presentation. Accessed on 19 May 2012. Available at http://www.fpo.go.th/FPO/member_profile/it-admin/upload/file/ppt05_54.pdf (in Thai)

34. Pensions form the biggest category of microinsurance worldwide, and there is a high demand for such products which can contribute to pension provision and financial security after retirement. However, there is limited supply of such policies. At the present, there are only 15 developing nations offering pensions products for their low-income markets. The coverage is extensive in Brazil and South Africa but still limited in India (Roth et al., 2007)

35. As many insurance intermediaries are likely to be remunerated based on the volume of businesses sold, this posts a problem of mis-selling in which policies are incorrectly represented to the insured. Because of the long-term nature of insurance, it is not until long after a policy was sold that an insured can form an effective assessment on the trustworthiness of an insurer and its agents. The problem of mis-selling presents in even in the developed insurance market such as the UK (Roth et al., 2006). A well designed remuneration structure and collaboration with the regulator and insurance companies are crucial factors to prevent mis-selling problem from occurring.

36. An example from CARD MBA, the Philippines.

CARD's foray into annuities

In December 1996, recognizing the need of its older members for pensions, and (over-) confident after the apparent initial success of the MMF, management decided to expand the product coverage. CARD decided to offer a pension benefit to members reaching sixty-five years of age for only US$0.05 more per week. The additional five cents meant that for both insurance and a pension, the new compulsory contribution was US$0.10 per week. This pension scheme was implemented across the membership without testing and without actuarial input.

When the client reached 65, or became permanently disabled, the new product offered a lifetime monthly pension between US$5.45 and US$10.90, depending on a how long the annuitant had been a CARD member. Under this arrangement, it took 14 months of monthly premiums of US$0.40 from a member to accumulate the lowest pension amount of US$5.45. There was no minimum participation period before the pension was available; members just had to turn sixty-five years old, although newer members would only receive the minimum pension.

During the 1998 audit, CARD's external auditors advised management that the pension situation was financially unsustainable. They had noted the liabilities building up under the MMF. Based on the auditors' insights, management realized that this liability was a very serious threat. Even though the average age of a CARD member was 43.6 (37.1 in 2004), the potential volume of soon-to-be pensioners would quickly deplete CARD's capital. The pension fund would destroy all the progress CARD had made, and indeed would destroy the institution itself. CARD eventually managed to extricate itself from its liability and shut the scheme down repaying all premiums into a new and separate mutual benefit association owned by CARD members.

Source: Adapted from McCord and Buczkowski, 2004.

Source: Roth J. et al. (2006), Long-term savings and insurance, Protecting the poor: A microinsurance compendium. Accessed on 6 May 2012. Available at http://www.microfinancegateway.org/p/site/m//template.rc/1.9.29231

37. This occurs despite the fact that micro life insurance is the easiest one to localise of all types of microinsurance products because it requires less extensive knowledge in terms of product design and less resource to administer and monitor (Wharton, 2010).

38. This is a major problem in microinsurance as low income workers often have irregular incomes. Endowment policies in particular post the problem of lapses. A policy is terminated

when the insured cannot maintain premiums resulting in only a surrender value to be received by the insured. Sometimes it is in the interest of the insurer when the policy lapses. Some insurance companies rely on lapses to avoid paying benefits. Such endowment policy presents poor value for the majority of the insured who are unable to maintain premiums. Delta implements in its policies a thirty-day grace period for delayed payments and a late fee can be paid either to prevent policies from being lapsed or to revive lapsed policies. Tata AIG allows a delayed premium to be deducted from the accumulated amount in the surrender value. Mechanisms to encourage regular payments such as a reward for regular payments should be promoted. An awareness of policy terms and conditions of the surrender value and a well understanding of savings and insurance components inside the premiums are critical at the inception of the policy (Roth et al., 2006). A well regulated environment is needed to ensure that policyholders are not being misled and insurance companies honour their promises.

39. It is difficult for insurers to invest their funds to receive the long run returns which are adequate for future pay-outs. In India, products which are similar to simple savings products are being offered. They are characterised by defined contributions but variable pay-puts depending on the returns on investment of the fund. They do not involve the concept of risk pooling. As pay-outs are paid as lump-sum or annuities only until the accumulated funds run out, policyholders take both interest rate risk and longevity risks of members. (Shankar, 2009).

40. The poverty lines for Bangkok, the Central, the North, the Northeast and the Southern Thailand are 2,198; 1,735; 1,579; 1,583; 1,627 baht/person/month respectively. The national poverty line is 1,678 baht/person/month. Source: The National Statistic Office of Thailand.