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***Insurance for the poor? First thoughts about microinsurance
business ethics***

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Insurance for the Poor? –
First Thoughts about Microinsurance Business Ethics

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Abstract

Microinsurance is the provision of insurance services to the poor, usually in developing countries. One of the key criteria of poverty is vulnerability even to minor events. In such cases even micro coverage can make a major difference, yet still be funded by an affordable contribution by the insured. Like any kind of insurance, microinsurance can cover different risks to life, health, farming, property among other things. Our paper sketches how one could address and develop microinsurance business ethics. First we introduce microinsurance to the business ethics community and business ethics to the microinsurance community. Our draft of microinsurance ethics is then developed from two angles: as a holistic understanding of ideals and possible ethical conflicts in key stakeholder relationships and by distinguishing eight challenges when targeting the poor and when marketing microinsurance. As an open ending, the paper suggests a three stage action research design focusing on how microinsurance could (and should) internalize ethics, respecting rather than neglecting national-cultural and local-cultural conditions.

Keywords: Business ethics, insurance, microinsurance, developing countries.

Introduction

The poor in developing countries are exposed to numerous risks in their daily lives. These risks can be lifecycle-related, economic, political, societal or natural disasters like floods or climate change. However, the capacity of the poor to deal with such risks is often very limited (such vulnerability almost defines poverty).

To cope better with risk, many societies and economic systems have learned to share risks on a structured, reciprocal basis through what we know as insurance. This paper outlines why and how insurance can be used to reduce the burden of risk facing the poor in developing countries. Such insurance, specifically targeting the poor, is called microinsurance – and is analogous to microfinance. Microinsurance differs from insurance in a developed insurance market with a large formal economy. The poor in developing countries work in the informal economy and often live in remote rural areas. The concept of insurance is often new to them. Over the past decade the number of different microinsurance schemes has increased significantly around the world, as well as the number of stakeholders involved in the sector. Various approaches are being tested in the search for an easily scalable, highly affordable, yet financially sustainable microinsurance approach.

The point of departure for this paper is that both the microinsurance community and the business ethics community¹ could benefit from mutual learning.² With such a perspective, we first present microinsurance on its own terms. As we see it, microinsurance represents a good “case” for trying out what business ethics has to offer, as theory for practice, with its mix of constructive-critical examination and good advice for developing positive examples and practices. Then, we draft three points of departure for microinsurance business ethics: first, offering a *language* which can help with discovering and articulating ethical concerns (and which in this special case can balance *intercultural and ethical sensitivity*), second, identifying and balancing legitimate microinsurance *stakeholder interests* and expectations,

and third, microinsurance *marketing ethics*. The paper aims at formulating and elaborating first thoughts for an important new field within business ethics and poverty research, and suggests action research as a next step; more than answering all kinds of questions the paper thus hopes to stimulate discussion and serve as basis for broad based dialog.

Microinsurance as a case

Microinsurance is often referred to as the provision of insurance to low income populations (e.g. Churchill, 2006, cf also SwissRe, 2010). This definition has two main components: insurance and a specified target group. Insurance is the provision of financial protection against the occurrence of a predefined risk in exchange for an ex-ante premium payment. Insurance works by pooling different risks together.³ Social assistance programs and other fully subsidized programs are thus outside the scope of microinsurance.

“Micro” is often used to specify that the insurance targets the poor, usually in developing countries. Targeting this group often leads to limited benefit packages as a result of the effort to keep premiums affordable, or in other words: micro premiums are paid for micro coverage.

Like any insurance, microinsurance can cover all kinds of risk, like death of family members, costs of ill-health, loss or damage of property, agricultural risks and so on. Traditionally a risk has been understood as insurable if the occurrence of the harm insured against is, at least to a reasonable degree, uncertainly distributed within an insured population(as opposed to certain), if the occurrence of such a risk for one insured is largely independent from such a risk happening to another insured in that population, if the occurrence of the risk is outside the control of the insured, if the damage is verifiable and if there is an insurable interest from the side of potential clients. Furthermore, low probability of occurrence (Churchill et al., 2003, Brown and Churchill, 1999) of the risk leverages the full advantage of risk pooling – as protection in a large pool of insured can be provided rather

cheaply. The higher the probability of occurrence (making it almost certain), the more costly to insure such an event; however, high frequency events, even when low in cost for a single event, often constitute a considerable burden on the poor when aggregated over a year. Therefore some microinsurance schemes try to cover relatively common events like consultation with a doctor or the purchase of drugs.

Microinsurance can be provided by different institutional arrangements (for a more detailed discussion of health insurance models for instance see Radermacher and Dror, 2006). The main distinguishing factors among forms of microinsurance are the nature of the risk carrier and whether the scheme works for profit or not.

In a *partner-agent model* (see e.g. McCord, 2006), an insurance company targets the market of the poor and links up with local institutions, which have a much better ability to reach the target group, such as microfinance institutions (MFIs) or non-government organizations (NGOs) working in the development field. Due to their work, such institutions possess inroads into the community and often enjoy the trust of the target group. In the partner-agent model, such proximity to the potential clients can be used for the distribution of the insurance product and sometimes for assistance in servicing of the insurance (claim processing and verification). The insurance company typically pays an agent fee to the MFI or NGO for each policy sold, whilst available profits are absorbed by the insurance company. Now and then governments take the role of insurance providers and collaborate in a similar fashion with MFIs or NGOs, but without a profit motive.

However, sometimes NGOs or MFIs decide to organise insurance *themselves* – without the involvement of an insurance company (see e.g. Brown et al., 2000; Churchill et al., 2003). As many of these institutions have a development objective, their in-house operated insurance might be not for profit. Without being linked to an external insurer as a safety net, they carry the risk of losses.

A third major model of insurance provision is the *mutual model* (see e.g. Fischer and Qureschi, 2006; Fonteneau and Galland, 2006; Radermacher, 2008). In a mutual model, the members of the institution insure each other. Insurer and insured are thus identical; profits and losses are shared among the members. Mutuals are usually governed by their members following democratic principles.

In each of these models the control over product, business processes, business practices and claim settlement is organised differently, and there are typically different stakeholders, with different degrees of influence when it comes to processes and products.

What has microinsurance business ethics to offer?

Microinsurance business ethics suggests to extend business ethics to microinsurance. In accordance with what one could call a co-creation strategy, we explore what the microinsurance industry could learn and benefit from business ethics, for improving industry practice and reducing the risk of harming the poor (rather than supporting them). Before we outline stakeholder and marketing ethics perspectives as useful points of departure for putting business ethics on the agenda of microinsurance, we briefly present business ethics as an academic field and comment on business ethics as a useful language, at least, consisting of a number of key terms and distinctions which can help with articulating moral uneasiness as ethical concern, or in other words, increase or even create ethical sensitivity.

As a teaching and research specialty, business ethics likes to look upon itself as an invitation to reflect and holistically think about what business does, should do and should not do. Having both theoretical *and* practical ambitions, business ethics tries to provoke deep and *alternative thinking* among its academic and business practitioner target groups *and* to be useful *in practice* - for analyzing, handling and, not least, preventing moral conflicts in business contexts. In the context of this paper, a brief reference to three interdependent,

thought-provoking conceptual distinctions can serve as a backdrop for the following approaches and discussion.

A key challenge for microinsurance and microinsurance ethics is to be flexible and to adapt to local moral-cultural norms, for example related to loyalties, religion, gift-giving, gender and age roles, but limited by a number of normative ethical principles, for example related to transparency, exploitation of vulnerability and ignorance, lying or causing harm, when marketing and administering microinsurance. Ethical and business ethical terminology makes it easier to describe and understand such challenges and concerns. In terms of the classical difference and tension between (examined) morality and (examining) ethics,⁴ understanding and accepting local variation could and should be understood as “morality”, while the discussion and development of stable, overriding principles would need to ask “ethics” for guidance. Another distinction, between descriptive and normative ethics, can also be helpful, as two typical ways of examining moral phenomena. While descriptive ethics would focus on description, understanding, prediction, for example of how microinsurance is marketed and used traditionally, in practice, in a given local culture at a given time, normative ethics is called for when it comes to advice, evaluation, criticism or justification. Both types of ethics have their typical experts and parent disciplines - social science and moral philosophy, and it has been claimed that such a difference of business ethical expertise represents a good reason both for a division of labor and for cooperation.⁵ A third distinction between cultural and ethical relativism⁶ overlaps with the two previous ones and seems once more highly relevant for microinsurance ethics, inviting it to examine synergies and contradictions between local-cultural norms (which deserve to be understood) and non-local “ethical” norms (which claim to be justified beyond mere tradition or practice), for example when it comes to protect stakeholders against harm and the microinsurance business against self-destruction.

There is a need to develop both normative and descriptive microinsurance business ethics, one at a time and in combination. From normative ethics microinsurance providers can hope for ideals and *practical criteria*, for an examination, evaluation and justification of *what* one should do and *why* in concrete moral conflict *situations*, both of the single case and of the routine type. Normative ethics meets such a potential demand, especially if moral philosophical criteria are simplified and translated into understandable criteria, rules, or heuristics⁷ for what to do. Descriptive ethics, on the other hand, can help with realism, for example describing, understanding and predicting the moral attitudes and behaviors of interdependent individuals and groups within a given microinsurance arrangement, not least with intercultural empathy and communication. Accordingly, descriptive ethical recommendations⁸ could be “delay your judgment”,⁹ consider first mapping the relevant “moral climate”,¹⁰ or take a look at the “moral intensity” (Jones, 1991) of a given issue. Since they are complementary, a *combination* of normative and descriptive ethics often makes sense, for example, if one wanted to design an intercultural risk dialogue¹¹ for reaching a consensus, or if one wanted to translate normative ethical principles into a microinsurance design which is realistic “in practice”.¹² To sum up: the strengths of *both* normative and descriptive business ethics consist in their *complementary* inspiration potential for microinsurance research, development and implementation. Both business ethics approaches should be kept in mind when adapting or developing checklists for moral conflict management, and then trying them out in practice, with exceptional or with routine cases.¹³ Most importantly, business ethics should be more than quick checklists, but eventually further collective and individual ethical sensitivity and wise *balancing* of ethical and business considerations. In addition to such (and further) basic ethical terminology, the stakeholder and marketing ethical perspectives presented below can serve as next examples of how one could promote moral sensitivity and wise balancing of ethical and business considerations.

The most important stakeholders of microinsurance

A fruitful way of understanding business survival in its relevant environment is to distinguish *stakeholders*, i.e. actors or groups which a business is affecting and is affected by. Such interdependencies and interactions are not limited to economic aspects. Rather, they refer to all kinds of significant relationships between different stakeholders, their interests and their power to enforce their interests (cf as classical sources Freeman, 1984, Freeman and Gilbert, 1988. As useful secondary literature see e.g. Crane and Matten, 2010, pp. 61-67 or Schwartz and Carroll, 2008, pp. 160-162). In addition to the microinsurance customers and marketers (see for a more in-depth presentation the following two sections), various stakeholders can be distinguished, with some similarities and some clear differences to conventional insurance system stakeholders. In table #1 the assumed main stakeholders are described and compared broadly by three criteria: ethical ideals, ethical dilemmas and ethical temptations. In a next step, some of such possible issues are elaborated.

Microinsurance Stakeholder	Ideal	Possible/ typical dilemma	Possible/ typical temptation
Insurer (consisting of functions and professions)	Competent and sustainable business helps the poor on their own terms	Balance business and ethical considerations	Cherry picking e.g. by using many exclusions
Pool of insured units	Well-constructed, resilient, and sustainable	Include or exclude bad/ worst risks, solidarity vs sustainability	Neglect rather than address dilemmas and challenges and hope for good luck
Insured units (individuals, households, small groups)	Know their best own interest, honesty and solidarity (with the needy)	Responsibility towards the unit vs loyalty to the pool	Follow self-interest vs loyalty to the pool, moral hazard
Intermediaries	Loyal to both sides, co-creative, co-responsible	Inheriting possible conflicts of interest between insurer and insured	Asymmetric information, white lies, focused on quick sales rather than informed sales
Donors (including SRI investors)	Help the poor on their own terms, maximize eventual effect, choice of best instruments and ways	Ideals vs realities; one cannot help all always at the same time (prioritizing among the needy)	Self-betrayal and window-dressing; develop and serve self-interest; fund-raising as business
Government (in the country of operation)	Competent and fair citizen welfare maximization, transparency, democratic legitimacy	Prioritizing among equally good and needy projects. Under- vs overregulation of microinsurance	Give in to lobbying, corruption, power abuse

Table #1

Insurer: Either a company or a community based organization. Companies are often involved in the sector because of a mix of profit and “do good” motivation. It often takes time to create profits and profits should not be too large in order to avoid accusations (and thus reputational damage) of making too much money on the backs of the poor (cf some criticism of commercial microcredit providers such as SKS in India and Compartamos in Mexico). It is a challenge though for insurers to tap the market as they usually rely on intermediaries, over whom they exercise only limited control. Community based organizations engaged in providing microinsurance often lack the capacity to offer insurance and, despite potentially good intentions, their offer of microinsurance cannot meet the needs of their insured members.

Target market and insured: Microinsurance target markets are generally characterized by low education levels, low and seasonal incomes and little knowledge about insurance. Furthermore, many documents required for making insurance claims are difficult to obtain, while others are easy to fake. The latter situation constitutes a considerable challenge for microinsurance. However, consumers cannot easily switch between insurers, since the market structure in a specific geography looks rather monopolistic for an individual household, with all the potential adverse effect this market structure brings.

Intermediary: Insurer and insured often communicate through an intermediary, often an NGO or MFI. The intermediary is paid for this task through an insurance commission. It is typically not easy for an intermediary to be “between the chairs”, trying to serve the interests of insured and insurer at the same time. And in today’s increasingly competitive microinsurance market, large intermediaries are well aware about their power to negotiate with insurers. Intermediaries do not always act in the best interests of the target groups, and often also demanding disputable contributions from the insurer for their decision making management.

Donors, government and general public: In the context of risk and responsibility sharing (cf. Brinkmann, 2007, 2011) such stakeholders are interested or potentially interested in microinsurance, but have often their own ideas (or no ideas) about *how to integrate* such support with their existing frames of reference and systems. If such stakeholders do not see such a fit sufficiently clearly, it is either difficult for them to brief or guide partners, or if they try to brief and formulate guidelines, such guidance may be less than optimal and can prevent the flexibility and creative experimentation which is so typical for this dynamically developing market.

Targeting the poor: Yes but how?

An estimated 1.4 billion people in the world live on less than \$1.25 per day, and when the threshold is raised to two dollars per day – an accepted measure of absolute poverty - it becomes 2.6 billion people (Chen and Ravillion, 2008). A little less than half the world's population are thus considered poor and adding the near-poor, this group constitutes the majority of the world's population (cf with a focus on ethics perspectives e.g. Werhane et al, 2010, chs 1&2). Many of them form the potential market for microinsurance (apart from the poorest of the poor, see e.g. Swiss Re 2010, pp 9-13). Addressing the poor or subgroups of the poor as a target group raises three questions, all raising business ethical or professional ethical concerns: if the poor should pay at all and how much, if it is acceptable for microinsurers to make a profit and if yes how much, and finally if one should let the poor share their risks only among themselves or rather find ways to design more economically diverse pools across different groups.

Should the poor pay for mitigating their risk?

Insurance requires the insured to pay a premium or contribution. From a development angle one could wonder whether this is at all an ethically acceptable proposition, when the insured are the poor. Take health for instance: Health is regarded as a human right (Article 25, The Universal Declaration of Human Rights). Consequently, governments in many countries try to provide health care (usually primary) for free. However, government funds in developing countries – even when supported by donors – are often insufficient to provide adequate care for free. User fees have been introduced in many countries – but the quality of care has not improved. As a result, patients have begun shifting to the private sector and to pay large amounts out-of-pocket. In India for instance, where primary care for the poor is supposedly free, private out-of-pocket expenses account for 72% of the health sector spending (2008 data; WHO, 2010). Spending out-of-pocket at the time when the risk occurs leaves the financial

burden on the affected household and can drag such households deeper into poverty.

Therefore, while it appears desirable that a government would pay for many of the risks the poor in a country face, it seems difficult in practice. Funds are insufficient and their target-oriented distribution is weak.

Health is obviously only one example. One can also look at coverage of e.g. livestock or crop risks or property or life insurance. Loss of livestock or crop threatens the food security of the household, decreases future income and requires households to cut expenses (e.g. by taking a child out of school). This behaviour affects not only the household but also the welfare of the society. The farmer suicides in India are one visible example of adverse effects on farmers spilling over to the larger society: modified crop seeds which were purchased with loans failed for many farmers because of drought. Many farmers committed suicide to escape the debt. The economy was not only confronted with lower yields because of the drought but also with relief programs for affected households.

A first argument for letting the poor pay themselves (at least if there is no other alternative) is an economic one. Against risks such as the examples provided above insurance can provide a more efficient solution compared to individuals spending alone and out-of-pocket (see Schneider, 2004 on theories for insurance uptake). Pooling of resources for certain risks spreads the risk of an individual over a larger group. Events which are uncertain for an individual, become more certain and predictable for a larger group (law of large numbers). In consequence, spending becomes more predictable when much of an individual's risk is shifted to the pool (this is not always the case in microinsurance, as we will discuss later in this paper). More predictable spending makes financial planning easier and reduces the need for emergency financing at the time of a health event or any other adverse event. In such adverse cases the poor tend to take loans at unfavourable conditions or sell off assets (Binnendijk et al., 2010). Afterwards, to service such loans, households might remove children from school

or reduce consumption. Health events are among the top reasons for impoverishment. In Cambodia more farmers become landless due to health events in their family than due to crop failure (Kenjiro, 2005). The Government of India estimates that 3.3% of the population fall into poverty each year because of illness (Ministry of Health & Family Welfare, 2005). Insurance, as a mechanism for making the costs of risks more predictable, thus can help to avoid such adverse consequences.

In addition, more predictable financing of risks and thus reduced costs of emergency financing can make resources available for other desirable expenses, like productive investments, schooling and the like. Furthermore, if entire households are covered, the health seeking behaviour even of marginalized groups in the household might increase (since individuals who previously avoided necessary healthcare due to prohibitive costs, now seek healthcare when appropriate).¹⁴

Insurance can have further effects apart from pure economic effects – *taking* responsibility for one's risks, individually and/or collectively, rather than waiting for the state or for others to take such responsibility. In many developing countries public service provision to the poor is weak. This is partly caused by the mechanism with which such services are financed: budget line financing, provided from centrally administered sources, usually de-links the provision of services and the salary of a health worker. Why struggle to treat a patient well? Moreover, underpaid health workers often ask for unofficial payments as a "gift" for the efforts they make. Insurance usually pays for services provided, and organizing the demand side into a coherent financing mechanism (as opposed to many paying out of pocket) helps create a counterbalance to often monopolistic or oligopolistic service providers in rural areas. Such collective bargaining power can be used for improving quality of care.

In essence, while it might be desirable to reduce the burden of the risk the poor are paying for themselves, it seems often unrealistic that this can be achieved given the limited

resources of developing countries and it would also risk some of the mentioned secondary benefits and advantages of insurance – such as taking responsibility for risks, and changing unpredictable costs against predictable expenses. The question is thus how microinsurance and other private and government initiatives can be streamlined for most efficient use of resources – but this is beyond the scope of this paper (see for instance Dercon et al, 2004). But microinsurance can certainly play an important role for more efficient risk management of the poor.

For profit or not for profit?

Microinsurance can be offered for profit as well as not for profit, normally dependent on the risk bearing entity. Government insurers and mutual schemes usually do not work for profit – which does not mean they incur losses. Private market driven players normally follow a profit motive and argue that insurance is only offered to the poor if it is profitable. Profits are able to attract more private investment and hence speed up penetration. Making profits is the typical purpose of private business (some however, enter on a no-profit no-loss basis, following more social goals). Rather than condemning private insurers for making profits, one should rather ask how much profit is acceptable. There are some examples of very low claim ratios (and thus very high profit margins) which raise doubts about the value for money for clients. Providing low value for money is also a short sighted strategy for insurers, killing the market of tomorrow. Aiming at modest profit from each insured but taking advantage of the large number of the potential market seems both a more sensible market development strategy and ethically more desirable.

Pooling among the poor

In insurance the risk of an individual is shared with the other individuals in the insurance pool (this is called risk pooling). If microinsurance targets the poor only, their risk is only shared

amongst themselves. If microinsurance is furthermore small and of limited geographical spread, the danger of covariance of homogenous risks arises, leading to a suboptimal diversification of risk. In other words, there is the danger that much of the pool will suffer the same harm at the same time, negating the risk spreading effect of insurance. An epidemic for example might affect many people in the same village. Moreover, the cost caused by occurrence of a risk might be similar for different economic profiles (e.g. treatment for same disease at same health provider) but coverage might be limited by the limited ability of the poor to pay.

Insurance pools across different economic strata might allow some kind of cross subsidization, particularly when social elements like different prices for different economic conditions are integrated. Commercial companies could do so by accepting losses on their microinsurance portfolio and cross-subsidizing these losses from more profitable portfolios of more affluent clients. Such acceptance of losses might be motivated by the Corporate Social Responsibility policy of a company, by a government pushing public companies to extend coverage among the poor or even by a regulator making the insurance industry's access to profitable top of the pyramid markets contingent on the companies catering to the poor (like the approach taken by the Indian regulator IRDA). Whatever might be the motivating factor, the microinsurance portfolio would effectively be integrated into a larger pool. The risk of engaging insurers in the market for the poor on a compulsory basis might however lead to inadequate servicing of such less desired clients. It is more difficult for community-based insurers to broaden their pooling beyond the homogenous group. Obtaining reinsurance might be one such option, as it allows shifting some risk of the poor away from the poor alone and into a larger risk pool. Whichever of the approaches described above is taken, it seems important to broaden the risk pool and to diversify the often homogenous risk of the poor

across other risk and economic profiles, as “pooling the poor with the poor is poor pooling” (Dror and Koren, 2010).

To sum up this section: Targeting the poor and their vulnerability raises from the very beginning three rather principled questions, of payment, profitability and pooling. Rather than coming up with general recommendations, we suggest these questions for a dialogue and for responsibility sharing among the affected stakeholders. We suggest realistic expectations and fair balancing between solidarity and business considerations, in short, between idealism and realism.

Marketing and social marketing of microinsurance, and ethical perspectives

At least in the ideal case, *marketing* means creating and exploiting markets, by staging mutually beneficial exchanges between sellers and buyers, based on understanding and influencing consumer behavior on its own terms and in accordance with the consumers’ best individual and collective interests. Commercial insurance marketing in a wide sense of the word as a staging of exchanges¹⁵ could serve as an example (cf. Lesch and Brinkmann, 2011). One could say that *marketing ethics* simply has to do with living up to such ideal self-conceptions, and hopefully at a minimum being sufficiently efficient and profitable without harming or lying to consumers. In addition, to the extent marketing and consumer ethics are interdependent, one could say that the best way of achieving marketing (consumer) ethics is through marketer ethics. Another term in the close neighborhood of marketing and marketing ethics is *social marketing* - where one uses marketing methodology, the tools and tricks of the trade, for promoting socially beneficial behaviors – such as use of seat belts, eating less fatty food or drinking less in the way of alcoholic beverages (cf. e.g. Andreasen, 2006).

In this section we will use the well-known distinction between the “four P’s” of marketing (product, price, place, promotion) for presenting microinsurance (and then add “protection” as a fifth one).¹⁶ As in table #1 above, marketing and insurance marketing ethics

are understood here as a mix of idealism and criticism, and, in the latter case, of working to achieve co-responsibility rather than blaming and shaming of either marketers or consumers. Table #2 tries to formulate a few idealistic assumptions about each of the “P’s”, while the prose that follows focuses on marketing ethics as moral criticism: in other words it collects, and comments critically on, various illustrations of marketing ethical dilemmas and temptations, most of them about balancing ethical with business considerations.

	Microinsurance (marketing) ethics as idealism - as rediscovery of the normative roots of insurance	Examples of microinsurance (marketing) ethical conflict risks
Market research	Combination of culturally-sensitive ethnographic research and collection of relevant and quantifiable data.	Insufficient or biased risk and market analysis, e.g. when it comes to socio-cultural aspects. Ignorant instead of self-critical uncertainty.
Product	Development of relevant, understandable, simple products, prioritized properly on target groups’ terms.	Exploiting customer fears and wants, especially false ones, exploiting unrealistic expectations.
Price	Transparent, low but realistic pricing, transparent tradeoff between priority needs and premium affordability. Perhaps one should consider subsidized premiums and/or differentiation by risk and purchase power. Contextually adequate decisions on risk or community rating.	Over-, underpricing, exploiting customer ignorance and/or product intransparency.
Promotion	Informing and educating target groups about how insurance works and about its risk and responsibility sharing core, with transparent underwriting procedures.	Manipulation in a wide sense of the word: exploiting desperation, helplessness, ignorance to increase influence and persuasion.
Place	High focus on flexibility for maximizing access. Transparent actuarial fairness in pricing than exclusion (which should be a last resort).	Hide behind unnecessary principles and rules. Exclusion as way of least resistance; hidden sales in bundle with more desired services (e.g. loans).
Protection	Using the subcultural groups of microinsured individuals as sources of mutual moral/social control for protection of the insurance pool, both regarding risk reduction and prevention of insurance abuse.	Unrealistic expectations of risk reduction; naiveté regarding moral hazard. Abusing claims of insurance fraud to deny legitimate claims. Moral neutralization.

Table #2

Product design

The insurance product defines the benefits provided to an insured party, contingent on the insured risk occurring and the price charged for the risk cover offered. Compared to conventional insurance, microinsurance products are restricted in their coverage. Such restriction is defined in a narrow benefit focus, in low caps of coverage and/or in exclusions within the benefits covered –often combinations of all three approaches. Exclusions can be exclusions of certain high risk groups or exclusions of services (e.g. specific treatments or service providers). Such exclusions are defined in the terms and conditions of coverage – which is common practice for insurance around the world and for all market segments. However, while understanding the details of their coverage is challenging for many insurance clients, for microinsurance clients such limitations and exclusions can be even more challenging due to their lower literacy, i.e. even if the terms and conditions are clearly explained to the insured, it is somewhat less likely that such issues would be fully intelligible to them. Short and simple product design with minimal or no exclusions and restrictions is thus essential for creating transparency and allowing the client informed choice.

Some micro health insurers in Cambodia offer an excellent example of simplicity in benefit packages: The microinsurance schemes CHHRA and CAAFW (Radermacher and Vanderhyden, 2010) offer access to health services from health centre level up to district hospital level with no exclusion of services and no age discrimination. Even illiterate and uninsured in the target villages know exactly the benefits covered by the schemes.

It might however not be always feasible to work without exclusions – and the example above should not automatically lead to the conclusion that a product without exclusions is the most ethical. Exclusions can work in favor of the insured community at large by allowing more efficient insurance schemes, e.g. in situations where an insurer is unable to set up an effective

servicing system for some conditions. Exclusions can then lead to leaner and thus more affordable products, accessible to poorer segments of the population. Whatever is excluded though must be clear and easy to convey to the insured.

Pricing of products

When the premium for insurance is fixed based on the risk that the individual insured constitutes (called risk rating), endowed and voluntarily taken risk can be accounted for. Commercial insurers often apply this rating technique. Insured parties might appreciate such discriminative pricing when they are a good risk themselves or when others are voluntary risk takers (Trhal and Radermacher, 2009). From a purely selfish perspective, they might also appreciate this approach for individuals with a higher risk endowment – although this might be socially less desirable and might lead to a number of people unable to find insurance coverage, as it is the case with health insurance in the United States. One could point out, however, that good risks today can turn into bad risks tomorrow when suddenly contracting a chronic disease – or simply by aging.

Community rating, which redistributes the price of a risk of an entire group of people equally to everyone, can be regarded unfair when risk taking is voluntary, but is in line with a socially desirable inclusion of persons with higher risk endowments. The decision on a pricing mechanism should be context and risk specific. Understanding the appropriate choice might require some empirical research.

Place: Process design

Processes define the interaction routines between the insurance provider, the insured and other stakeholders like service providers. They are usually set by the insurance provider as part of the service offered to potential clients. Such processes are usually non-negotiable for an individual client once they are fixed by the insurance provider. Many of the processes are derived from international “best practices” and applied in the developing world to clients at

the top and the bottom of the economic pyramid alike. However, they may not be suitable for both ends of the economic pyramid. Clients in the microinsurance market differ from affluent clients in a number of important features: literacy and numeracy are often low; sources of information that allowing comparing offers are scarce; understanding of insurance is limited, even compared to that of ordinary consumers; income is particularly low and irregular – to name but a few differences.

Ignoring these differences can lead to a process design inappropriate for the targeted market and lead to ethically questionable techniques. Take a few examples:

The target group for microinsurance often lives in remote rural areas. How are the links between insured and insurer maintained once the sales process is over? Where can the insured turn in case of questions – for example, where and how to submit claims or where to turn in case of grievance? If the insurance provider requires clients to visit a local office, the travel costs to such an office – often in the closest provincial town – might easily be prohibitive for the poor.

For claim verification the insurance provider needs certain documents to be submitted. Various doctors' certificates are one example; a police confirmation for a fishing vessel lost on sea another. From an insurance perspective such information is required for claim verification and is thus a prerequisite for claim payment. This might constitute a problem for the insured though, as such documents are often not issued – or charges are asked for them. Creating processes which reject claims because of missing documents is understandable from an insurance perspective (as the insurer is afraid of being cheated) but overcoming this hurdle might be outside the control of the insured. The latter would obviously feel cheated in such a case. There is no quick and easy fix to this issue, but it requires a sensible process design to overcome this problem. Designing mechanisms that use local information might be one approach. Uplift Health, a mutual insurance scheme in Pune, India, for instance uses local

claim committees for the verification of claims. As the committee members are insured and insurer at the same time, they use their local information for claim verification. Such incentives to use local information – combined with professional management – are an interesting adaptation of processes for microinsurance.

The challenge in the design of processes for successful microinsurance operations is to adjust the processes to the reality of the poor, rather than expect the poor to adjust their reality to insurance processes.

Promotion: Microinsurance education, personal selling, etc

One of the most widely referred-to obstacles in microinsurance is the lack of insurance education among the target group. Insurance as a formal process – even when practiced in various forms in informal arrangements (e.g. Coate and Ravillion, 1993; Platteau, 1997) – is not known to most in the target group. Confusion with saving products is common, as is the expectation to “get the money back” in the event that there is no claim. This puts a heavy burden on information provision in the enrollment/sales phase. Such information provision would also need to ensure that clients understand how to claim their benefits from the insurance. But is this information sufficiently provided to the insured individual? Even if this should be so, insurance marketers often chase the uninsured until they become members but then reduce the interaction once people are insured. The sales agent’s commission is one factor explaining this: an agent is being remunerated for each new insured member; the agent’s interest in servicing those which are already insured is thus rather low and other structures reaching out to the insured are often not in place. Often, a renewal of a policy is not counted as eligible for a full commission.

Another disincentive for the claims process functioning as smoothly as the joining process is simple: profit. Cumbersome procedures reduce the number of claims received. An example can be observed in India’s government sponsored health insurance (though not

insurance in our definition of the paper) scheme for the poor, the Rashtriya Swasthya Bima Yojana or RSBY. RSBY is implemented through insurance companies and almost fully government-subsidized. Households pay a small administrative fee when joining and are then supposed to obtain a smart card which is needed for claiming. Hundreds of thousand of people were quickly enrolled. In many of the districts though, enrolment took place before the insurer put the infrastructure for claiming in place – which often came many months later. Practices along similar lines are reported from other microinsurance schemes as well, where claim decisions were dragged for several months, posing a high burden on the insured who waited for compensation of the loss incurred.

Protecting microinsurance: Reducing adverse selection, moral hazard and fraud

Adverse selection is the phenomenon in which those of above average riskiness (referred to as bad risks in insurance) are more likely to join the insurance scheme as better risks do not regard the offer as appealing. Moral hazard refers to a reduction in the risk avoidance behaviour of an insured person because of he/she is insured. Fraud is the submission of false insurance claims. These phenomena, potential ways for tackling them and ethical considerations in this regard certainly offer enough substance for an entire paper. We simply want to highlight in our argument here the need for insurance to tackle these challenges – not only because these issues endanger the viability of the insurance scheme. We rather want to pick up a thought formulated by Baker (2002): members or clients of an insurance pool share risks and the costs associated with the risks. Risk sharing is likely to be accepted as long as some homogeneity in the risk profiles is felt. The insurance provider thus carries a responsibility for deciding on who can join a risk pool. Societal and individual objectives might obviously be at conflict when only focussing on good risks (“cream skimming” or “cherry picking”) and leaving aside or even dropping bad risks (“lemon dropping”). As an acknowledgement of the societal interest in providing insurance cover for all, some

jurisdictions do not allow cherry picking and lemon dropping for some risks (particularly in health insurance). Other mechanisms for handling higher risks can be applied, including subsidies to the risk pool.

Insurance also implies some responsibility vis-à-vis the insured regarding of certain behaviour amongst other insured members, potentially resulting in more claims. This links to reduction of moral hazard and other risk accepting behaviour. Smoking, risky sports and being overweight (in some cases) are examples of higher risk through voluntary risk taking in health insurance, and this is seen as within the control of the individuals in question. Such risk acceptance or risk taking increases the risk for the whole insurance pool, and the peers of the voluntary risk-taker may not be willing to compensate for this (Trhal and Radermacher, 2009).

It can further be safely assumed that the insured have little interest in accepting fraud carried out by another insured member in the same pool – provided the concept that fraud might lead to higher premiums for all is clear to them. It is rather on the side of the insurance provider to ensure that the ex ante agreed conditions of insurance are being kept to and that only due claims are paid. However, this links back to the issue discussed above: preventing fraud by establishing complicated procedures which are meant to bridge an information gap is ethically difficult in microinsurance, as this might crowd out even eligible claims.

It is thus important that insurance defines mechanisms to deal with fraud and moral hazard and finds a solution that avoids adverse selection without leaving higher risks excluded from coverage.

Instead of a conclusion: Theses and questions for discussion

The proposal of this paper is to put business ethics on the agenda of microinsurance (and by placing it in this special issue of this special journal, of course, also to put microinsurance on the agenda of business ethics). In other words, the longer term ambition is to combine

ambitions and competencies across two fields without previous contact. For this reason, it does not make sense to formulate any conclusion, while it may be helpful to repeat and to extend some main points made above, in the format of theses and questions for discussion.

1. Microinsurance is among the most promising strategies for decreasing and preventing poverty in (but not only in) developing and emerging economies, by addressing one of the key defining aspects of poverty: vulnerability through adverse events. In addition to the economic and moral risks and opportunities faced by insurance in general, microinsurance needs to balance wisely critical aspects such as accessibility, affordability, flexibility and simplicity for being able to develop and grow. If microinsurance is not designed and run sustainably, it risks to inherit rather than transcend the vulnerability of its insurance pool members, leading to self-destruction.
2. There are different models for organising microinsurance: partner-agent, independent and mutual insurance models. It is obviously important to compare these different models, case by case and continuously, by economic *and* social-ethical performance. However, as long as microinsurance is designed and run in a transparent and fair manner we believe that offering microinsurance (at all) is more important than which model is used.
3. In line with how business ethics likes to talk about itself, one could say that this paper invites reflection and holistic thinking about what the microinsurance business does, should do and should not do, invites deep *and* practically relevant *alternative thinking* among both academic and business practitioner target groups. In particular the flexibility criterion, the imperative to go as local as necessary (or even as local as possible), raises interesting questions for discussion, in the interface between ethical integrity and intercultural open-mindedness. As we see it, a fair and open stakeholder dialogue could benefit from popularised academic distinctions such as between descriptive and normative

ethics, morality and ethics and not least between (productive) cultural and (destructive) ethical relativism.

4. Now and then it is said that one of the core contributions and obligations of business ethics is wise balancing of business and ethical considerations, using for example Kantian, utilitarianist, or dialogue ethical criteria or a combination of them. Microinsurance stakeholder dialogues as we suggest them could be and should be about how to balance such considerations, including of course wise balancing of legitimate but conflicting stakeholder interests, perhaps also ideals, dilemmas and temptations (cf table #1). Our (preliminary) list of stakeholders contains microinsurers, target markets of micro-insurance, intermediaries, donors, governments, and general public. Most important to address and discuss as a stakeholder are, of course, the poor as the primary target group of microinsurance, and the open questions related to their assumed best interest, when it comes to principled questions, of payment, profitability and pooling - if they should pay for risk mitigation in the first place and if yes, how much and why, or balancing pool sustainability with questions of if and when it is fair to exclude the most needy as pool members. Also, as mentioned already, one should of course discuss continuously whether for-profit microinsurance is ethically acceptable, and if yes, whether there is any reasonable upper limit to fair prices and profits.
5. One could say that microinsurance *marketing ethics* simply has to do with living up to the ideal self-conception of marketing, of staging mutually beneficial exchanges between sellers and buyers, based on understanding and influencing consumer behavior on its own terms and in accordance with the consumers' best individual and collective interests. Independently of social marketing ambitions or of assuming that insurance should rediscover its historical solidarity ideals it seems fruitful to organize a draft and illustration of microinsurance marketing ethics by using the four "Ps" of product, price,

promotion and place, with market research and pool protection in addition (see table #2 as a sufficient summary for discussion purposes).

Open ending: Suggested next steps

Our paper has presented a number of issues for putting ethics on the agenda of those providing microinsurance (cf in particular our text tables #1 and #2 above). Our understanding of ethics as partly a question of good intercultural listening and communication has been mentioned briefly above already. In line with such an understanding, two natural and interdependent next steps are dialogue and action research. A constructive but critical *microinsurance stakeholder dialogue* would help with developing a shared understanding of the content and priorities of an ethics agenda, and, as importantly, a sense of shared ownership. *Action research*, as we see it, represents the other side of the same coin, listening well to the stakeholders on their own terms, but critically, and suggesting how to address any identified ethical issues, in practice. Or in still other words, collecting qualitative data about relevant national-cultural and local-cultural norms and values is indeed important, since these potentially can further or hamper microinsurance projects, but such data collection and discussion needs to take place in close cooperation and joint ownership with the stakeholders and the target population studied.

In order to be sensitive to the expected national-cultural and local-cultural differences (religious ones included) we suggest considering a three-step action research and network-building procedure. As a *first step*, one should start with dialogues, documentation and data collection on the *national-cultural level*, in two to four countries with a broad representation of microinsurance stakeholders who should “own“ the dialogue and its outcomes. A primary purpose would be to identify national cultural-specific threats to and opportunities for successful microinsurance projects. Hopefully, one would encourage constructive self-critical reflections about one’s own culture’s strengths and weaknesses, including perhaps blind spots,

myths, and wishful thinking. As a *second step*, we suggest two to three local *microinsurance case studies* in each of the countries selected above, perhaps developing and using a checklist of the type drafted in the appendix as a reference. After summarizing the material obtained in the two steps or stages outlined above, in different countries and settings, one could as a *third step* arrange a dialogue seminar, about the material, for comparing experiences across countries and settings. In accordance with our philosophy, such a dialogue would include a selection of participants from the previous stages, but in addition aim at broadening participation, by including public bodies, private insurance companies, other potential supporters, relevant NGOs, in the dialogue. Not least, it would be important to relate all stakeholders' experience to the visions, philosophies, priorities, expectations of transparency and ethics of the microinsurance industry, as a condition for support. In this third stage, one could also ask for views about developing ethical guidelines for microinsurance and microinsurance support on an international level. The ambition of such a dialogue approach is bridge-building between disciplines and even more so between theory and practice, and host reputation and legitimacy matter a lot, too. For this reason, we would suggest to arrange such a 3rd stage seminar as part of a microinsurance and/or a business ethics event, and to ask organizations such as the Microinsurance Network, the Micro Insurance Academy and/or multinational insurance/reinsurance companies to be partners or even hosts and sponsors of such a third stage event.

Such dialogues should be followed up with a collection of best practice cases, preferably accessible online. Hopefully, the expectations created by such dialogues and best practice cases can serve as an insurance of the microinsurance industry itself – against the kind of moral criticism and negative media coverage faced by the microcredit industry, which increasingly is blamed for profit-seeking and exploitation of the poorest. Microinsurance business ethics of the kind suggested here is meant to function proactively, by anticipating

and avoiding moral wrongdoing, as risks. As we see it, business ethics invites insurance to focus on its “moral opportunity” (Stone, 2002), in this case helping the poor on their own terms, in a long-term, sustainable fashion, where business and ethical considerations are fairly balanced. In other words, even profit motives can be acceptable and legitimate as long as they are instrumental for (and not dysfunctional for) reducing risks of the poor of becoming even poorer.

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Appendix

The following checklist repeats and summarizes most practical points made in the paper and could be used in the suggested pilot studies and the stage 3-seminar discussion, for inspiration and for further simplification and modification.

A preliminary checklist for microinsurance business ethics

1. What are the alternative possible risk management techniques (whether currently used or not) and how does microinsurance as a risk management technique compare with the other alternatives?
2. Is it possible to construct risk pools including not just the poor, and if yes, what are relevant insurance business arguments and business ethical arguments, both for and against?
3. What are the primary needs of the potential clients, on their own terms, and are the possible microinsurance benefits relevant and sufficient to them?
4. Is insurance as a technology and is insurance marketing sufficiently easy to understand for the given target populations, even if they are illiterate; if not, which advocates or go-betweens could one consider using to communicate about insurance in clearer ways?

5. Are the target groups' expectations sufficiently clear and realistic? Who can and who should take responsibility for any misunderstandings?
6. Does trust and do trusted go-betweens compensate for lack of detailed understanding and control? How could one make sure that such trust is not abused?
7. Are the enrolment and underwriting processes transparent?
8. Are there any sufficient routines for ensuring non-discrimination against more vulnerable groups, and are such routines known to the parties who need to know of them? Is there any practice of positive discrimination toward such groups (and is such discrimination known and accepted)?
9. Is it sufficiently easy for the poor to make fair claims, without being barred by unrealistic procedures?
10. Is the speed of the claim decision and payment process sufficient?
11. Can clients access all relevant and up-to-date information locally?
12. Can a complaint mechanism be accessed and used at little or no cost to the insured (and how can one both encourage legitimate complaints and discourage illegitimate ones)?
13. What parts of a given microinsurance arrangement as a whole are most vulnerable to risks of abuse, fraud and corruption, on the insurer, sales and intermediary sides, and on the insurance customer side? Is there a tendency toward mutual blaming and shaming between the parties as we know it from conventional insurance?
14. Does the claim process design achieve fraud risk reduction fairly well without crowding out eligible and legitimate claims due to complicated procedures?
15. Is the insurance scheme sustainable in a longer-term perspective, i.e. does it represent a good balance between low but realistic administrative costs, fair insurance product pricing for value for clients in terms of risk coverage and a fair profit (if the insurance provider works on a for-profit basis)?

Endnotes

¹ Note for readers with less business ethics literacy: For short introductory presentations of business ethics see e.g. <http://plato.stanford.edu/entries/ethics-business/> or at introductory chapters in leading introductory textbooks, such as http://www.oup.com/uk/orc/bin/9780199564330/craneandmatten3e_ch01.pdf.

² We are fully aware that such a bridge-building approach risks criticism from both target groups, for repeating terms and approaches which are well-known to the respective communities.

³ Note for readers with less insurance literacy: See in addition to SwissRe, 2010 e.g. <http://www.britannica.com/EBchecked/topic/289537/insurance> or even <http://en.wikipedia.org/wiki/Insurance>

⁴ Put really simply, one can say that morality refers to *empirical* phenomena, to the *values* and *attitudes* held by individuals and groups at a given time and place, in interaction with individual and collective moral *behavior*, while ethics is *about* morality - i.e. examines, questions, discusses and justifies (empirical) morality in the above sense. Morality varies across cultures and individuals, while ethics usually presents itself as universally applicable and universally relevant. As a point of departure for further reading see e.g. <http://plato.stanford.edu/entries/ethics-business/>

⁵ While there is not much disagreement about such practical synergies, the theoretical relationship between descriptive and normative ethics is highly controversial. The question is if they should be treated as “parallel” (i.e. as clearly different) or as “symbiotic” (as mixable in practice), or if one should aim for an “integration” (i.e. even in theory - cf. Weaver and Treviño’s arguments in favor of such integration, 1994, and Donaldson’s arguments against, 1994, which we would tend to follow. These two contributions are published in the same special issue of the Business Ethics Quarterly about empirical versus normative business ethics. Cf in addition also Werhane’s paper, *ibid*.

⁶ In the first case of cultural relativism, one accepts a norm that each culture with its morality is entitled to be *understood* on its own terms without being evaluated as inferior or superior. Ethical relativism would be a norm that prohibits any moral *criticism* of certain behaviors or practices or cultures by norms anchored outside the relevant cultural contexts. Cultural relativism encourages rather than disturbs descriptive ethical studies of morality, while ethical relativism discourages non-immanent normative ethical criticism, and risks in the best case uncritical description and understanding, and in the worst case opportunism and loss of integrity (cf. Brinkmann, 2002, esp. pp. 9-12, with further references).

⁷ Examples of such criteria in the moralities of everyday life, business life, and religious life are “the golden rule”, “the end justifies the means”, “the ten commandments” or “follow your gut feeling”.

⁸ By the way, as all recommendations they are at least slightly normative.

⁹ Cf the “describe-interpret-evaluate” principle, procedure or exercises in intercultural communication, see e.g. <http://www.intercultural.org/die.php>

¹⁰ See e.g. Arnaud, 2010, which could serve as a first point of departure for studying the ethical climate of microinsurance.

¹¹ Note for risk research newcomers: See e.g. IRGC, 2008, esp. pp 14-19 (http://www.irgc.org/IMG/pdf/An_introduction_to_the_IRGC_Risk_Governance_Framework.pdf) or Renn, 2008, for further readings about risk perception, evaluation, communication.

¹² Note for non-business ethicists: For a presentation of the most well-known *normative* business ethical theories (or moral philosophies) in a systematic and very simplified fashion see introductory textbooks such as Crane and Matten, 3rd ed 2010 see especially the text table on p. 129.

¹³ Not surprisingly, there are many ethics consultancy lists to choose from. There are rather simple and easy to remember ones such as Blanchard and Peale's (1988): "Is it legal, is it fair, can I defend it?", or -just a bit longer -Rion's (1990) "Why is this bothering me? - Who else matters? - Is it my problem? - What is the ethical concern? - What do others think? - Am I being true to myself?", or Kvalnes and Øverengen's (2010) "navigation wheel" with 6 similar questions related to legality, morality and ethics, identity, reputation, and business criteria. And there are more complex ones such as the 8-question list of van Luijk (1994), the 8-step list of Laczniak and Murphy (1985), the 12-question list of Nash (1989) or the 5-step and 14 question-list by the Markkula-center (2007). In practice, it does not matter so much which checklists one chooses or develops, as long as one regards them as scaffolds which help with starting one's work but which can be taken down once the building is sufficiently stable.

¹⁴ For a more detailed discussion on the impact of microinsurance see Radermacher, McGowan and Dercon, 2012.

¹⁵ In an insurance context, one could balance marketing with providing adequate products and processes, advertising and sales, underwriting, adjusting and claim handling.

¹⁶ If one likes such alliteration, one can consider using even more P's, such as people, process and physical evidence.