

**Microinsurance:  
A Tool to Enhance  
Financial Inclusion in Egypt**



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Mohamed Adam, Yasmin Hashim, Kei Sakamoto, Yuki Yoshida<sup>1</sup>

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## 1. Financial Inclusion and Microinsurance

### Access to Finance in Egypt

With 27.8% of the population still living under the national poverty line, especially in Upper Egypt where there is hardly access to financial instruments such as bank loans and insurance products to help pay for their households, it is becoming more important to consider about Financial Inclusion in Egypt.<sup>2</sup> When people have more access to finance, they are better able to start or expand their businesses, invest in their education, and mitigate risks, which will be key to poverty reduction and job creation.<sup>3</sup>

According to Global Findex Data (World Bank, 2017), globally, 69% (94 % in high-income countries and 63% in developing countries) of adults in 2017 have banking accounts, which has significantly improved from 51% in 2011.<sup>4</sup> Although seeing improvement, the percentage in Egypt is still 33%, which is low compared to the other Middle East and North Africa (MENA) countries. It is considered that people still have psychological resistance to banks or financial products that show their unwillingness to pay for maintaining bank accounts and purchasing insurance products in Egypt.

<sup>1</sup> The authors are staffs of JICA Egypt Office at the time of drafting the paper.

<sup>2</sup> National poverty line is defined as monthly income under EGP 482 in 2015 according to Egypt's Central Agency for Public Mobilization and Statistics (CAPMAS).

<sup>3</sup> For details of the importance of financial inclusion, refer to CGAP website ( <https://www.cgap.org/>).

<sup>4</sup> The World Bank (2017) "The Global Findex Data 2017", available at <https://globalfindex.worldbank.org/>. There is improvement from 9.7 % in 2011 and 13.7% in 2014.

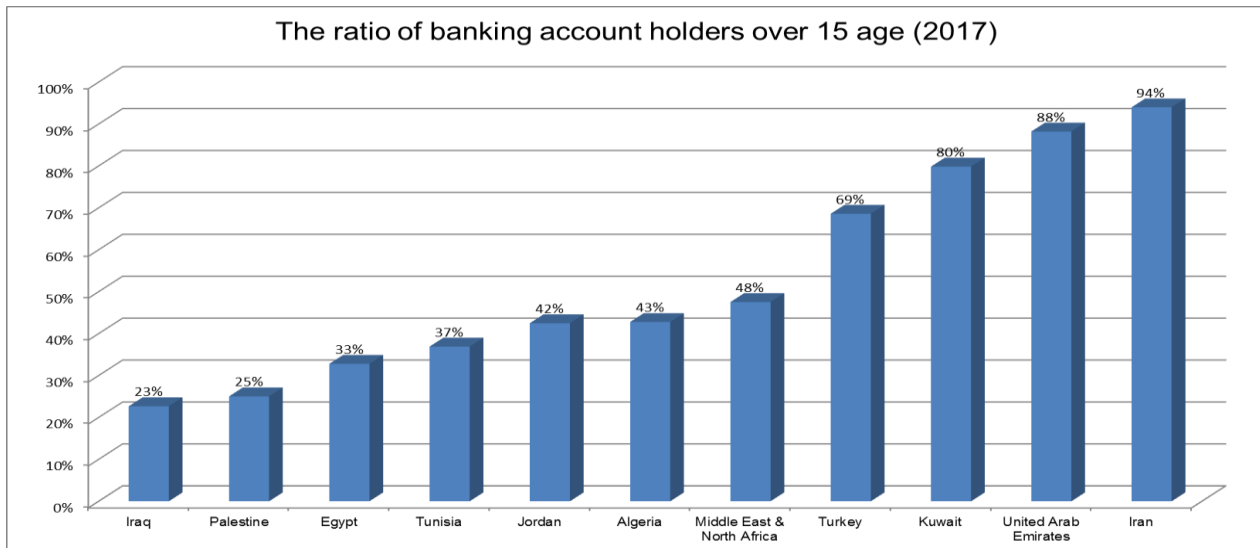


Figure 1. Ratio of banking account holders over aged 15 (World Bank Global Findex 2017)

## Financial Inclusion

To enhance access to finance and strengthen inclusion and social safety, the concept of “Financial Inclusion” has been mainstreamed in international development.<sup>5</sup> The concept was proposed officially at the G20 Pittsburgh Summit in 2009 where the Leaders pronounced that they reached to an agreement and commitment to improve access to financial services for the poor and to support the safe and sound spread of new modes of financial service delivery to reach them.<sup>6</sup> In 2017, the G20 agreed to launch the Global Partnership for Financial Inclusion (GPII), and more than 65 countries have made commitments for developing financial inclusion by the Maya Declaration endorsements.<sup>7</sup>

## Microfinance and Microinsurance: Tools that contribute to Financial Inclusion

Among the several entry points to enhance Financial Inclusion, it is microfinance that has responded to the issue of the immaturity of inclusion by the traditional financial sectors such as banks. Although banking technology has been developing and creating systems such as mobile credits, there are still large numbers of individuals and enterprises that cannot benefit from these official-banking services. So far, microfinance has been mainly implemented by NGOs as a service to complement larger financial institutions, providing finance to formal and informal micro enterprises and individuals.

<sup>5</sup> CGAP defines Financial Inclusion as “A state where both individuals and businesses have opportunities to access and the ability to use a diverse range of appropriate financial services that are responsibly and sustainably provided by formal financial institutions”. Financial inclusion is seen as one of the way of contribution to accomplish Goal 7 and 17 in Sustainable Development Goals (SDGs). Details are available at <https://www.worldbank.org/en/topic/financialinclusion/overview>

<sup>6</sup> G20 Leaders Statement at Pittsburgh Summit (2009), available at <http://www.g20.utoronto.ca/2009/2009communique0925.html>

<sup>7</sup> G20 Leaders Statement: G20 Finance Communiqué (2017), available at <http://www.g20.utoronto.ca/2017/170318-finance-en.html>

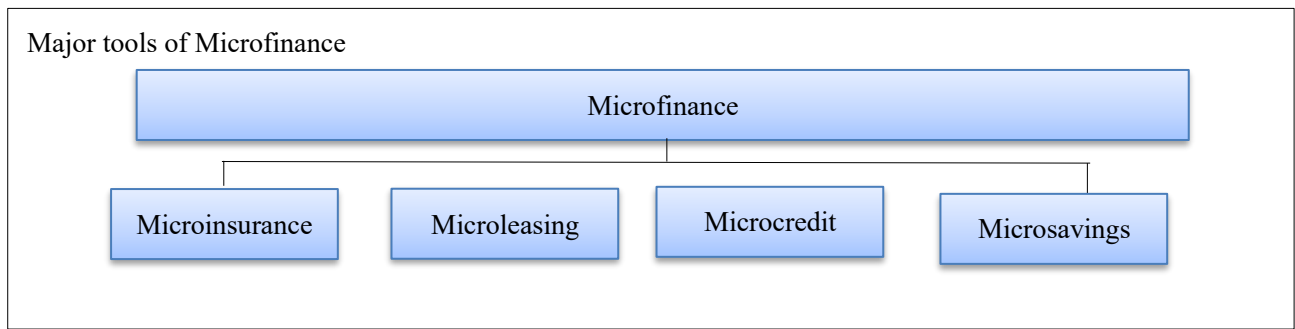


Figure 2. Micro Finance and Microinsurance

Microinsurance is a low-cost insurance that offers low-income groups in developing countries, one of the major tools of Microfinance. International Association of Insurance Supervisors (IAIS, 2007) defined Microinsurance as “Microinsurance is insurance that is accessed by low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles)”. Many people fall into poverty by unexpected accidents such as a natural disasters, wars, economic crisis and diseases while having catastrophic economic consequences when suddenly encountering such incidences without any preparation. In order to prevent such risks, microinsurance plays a key role to protect low income people’s lives contributing to enhancing social security and poverty reduction. Recently, various international organizations and microfinance institutions have begun to maximize the use of it. For example, BRAC (Bangladesh Rural Advancement Committee) which is one of the world’s leading institution for microcredit and digital financial services established BRAC Uganda (BRAC Uganda Microfinance Ltd.) to develop microinsurance in Uganda.<sup>8</sup>

### Microinsurance in Egypt

There is still huge potential for microinsurance growth in Egypt, where the leaders also stresses that Insurance is a key component of sustainable development.<sup>9</sup> While Microfinance institutions (MFIs) in Egypt are prohibited from providing micro savings, microinsurance has attracted interest to become the key tool for providing social protection to prevent from risks.

On the other hand, the reality shows that families in Egypt often suffer from high burden of health payments.

Figure 3 describes that Egypt has a high burden of health-related payments in total family expenditure compared to other emerging markets (Rashad and Sharaf, 2015). Only 0.27 million low-income people (0.32% of the total Egyptian population) were identified as being covered by microinsurance, and people tend to highly suffer with sudden illness and death of their family members.<sup>10</sup>

<sup>8</sup> OKIKO Credit available at <https://www.oikocredit.coop/what-we-do/partners/partner-detail/55338/brac-uganda-microfinance-ltd>

<sup>9</sup> This statement was made by the President Abdel Fattah el-Sisi, at the World Economic Forum in the Dead Sea in Jordan (2015).

<sup>10</sup> Details are available at World Map of Microinsurance (<http://worldmapofmicroinsurance.org/>).

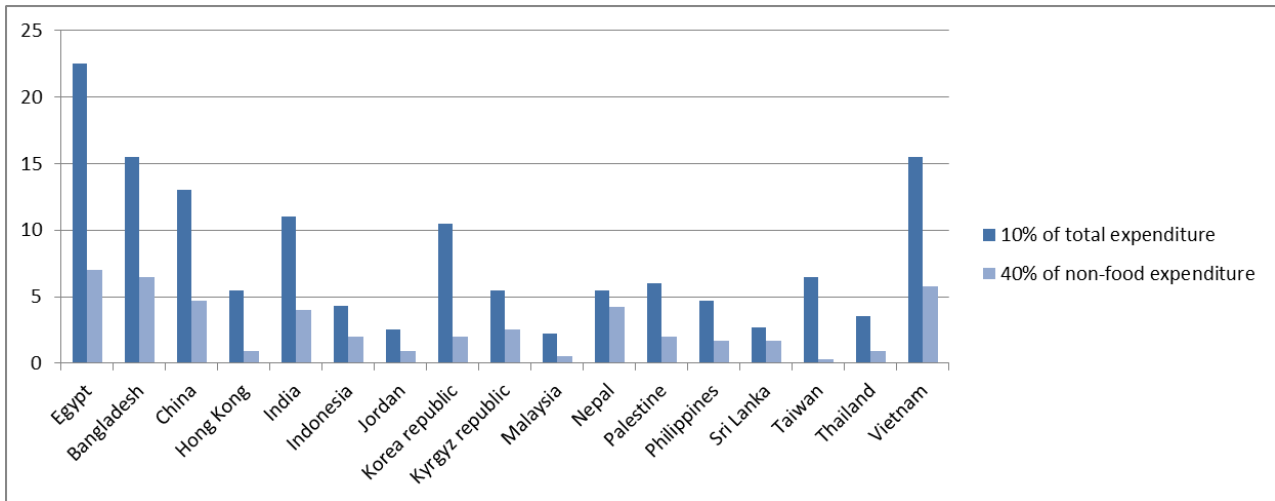


Figure 3. Burden of Health Payments in total family expenditure

## 2. JICA's cooperation for Microinsurance in Egypt

To enhance financial inclusion, with a need for a mechanism to mitigate the risks for the low-income people in a way that matches their needs, the Government of Egypt represented by the Financial Regulatory Authority (FRA)<sup>11</sup> saw the need for the establishment and growth of microinsurance. Consequently, FRA and JICA partnered starting 2015 in order to take its first steps towards developing microinsurance in Egypt. The cooperation started from a Study tour to the Philippines; resulting in FRA issuing the Microinsurance directive in 2016. JICA and FRA's work expanded in 2017 when the Egyptian Japanese cooperation worked on the capacity development of the market through enhancing the microinsurance capacity of the key training institutes, the Financial Service Institute (FSI) of FRA and Insurance Institute of Egypt (IEE) of the Insurance Federation of Egypt. The following part will describe the consequences of the development of microinsurance in Egypt together with people's effort behind the scenes.

### Phase 1 Setting Stage for Microinsurance Development

#### Learning from the Philippines

The cooperation started in the Philippines, the leading model of microinsurance. In order to establish a stronger understanding for the stakeholders, JICA organized a study visit to the Philippines in March 2015 which included members from the regulator, as well as members from the private sector. The Philippines had microinsurance coverage of over 28% of the population at the time.<sup>12</sup> Participants asserted that this study visit was highly beneficial and an exposure to learn and see first-hand how social protection can be enhanced through the private sector, namely through microinsurance. On October 2015 FRA and JICA inaugurated the first phase of a project to introduce microinsurance in Egypt, a phase which achieved outcomes fundamental to the establishment of microinsurance of Egypt.

<sup>11</sup> FRA is the regulator responsible for development of micro finance market as well as capital market, insurance, mortgage finance, financial leasing, factoring and securitization.

<sup>12</sup> For details, see Department of Finance (2015), "Philippines Leads the Way on Microinsurance" – Department of Finance, Government of the Philippines, <https://www.dof.gov.ph/index.php/philippines-leads-the-way-on-microinsurance/>.

### From the National Roadmap to the Microinsurance Decree

Under the first phase, with the support of the microinsurance expert Michael McCord, FRA and JICA developed a “National Roadmap for Microinsurance”, which encompassed steps for the establishment and expansion of microinsurance in Egypt: from the regulator defining microinsurance to Egypt achieving the ultimate vision of microinsurance development and becoming the center of microinsurance in the MENA region by 2022. The strategy stipulated three main strategic pillars for microinsurance development in Egypt: regulation and supervision, private sector participation, and market development and education.

Vision for MI development: <i>Egypt is the center of microinsurance in the MENA region</i>			
Strategic objective / pillar	Regulation and supervision	Private sector participation	Market development and education
Expected outcomes (by 2022)	<ol style="list-style-type: none"> <li>1. EFSA has an active Microinsurance Unit, leveraging reporting</li> <li>2. All MI insurers provide timely, accurate, &amp; inclusive MI reports</li> <li>3. Updated actuarial tables in use</li> </ol>	<ol style="list-style-type: none"> <li>1. # MI products offered: 25 (2015=4)</li> <li>2. # persons covered by MI: 10 million (2014 = 270 thousand)</li> <li>3. MI GWP: USD 200 million (2014 = USD 208 thousand)</li> </ol>	<ol style="list-style-type: none"> <li>1. Insurance education modules in 80% of schools</li> <li>2. 90% of MI products are S.U.A.V.E.</li> <li>3. Market education tools are leveraged by all insurers</li> </ol>
Key outputs [suggested action areas]	<ol style="list-style-type: none"> <li>1. New proportional insurance law</li> <li>2. Development of MI Unit</li> <li>3. Updating actuarial tables</li> <li>4. Develop reporting structure &amp; analysis tools</li> <li>5. Include incentives in legal framework</li> </ol>	<ol style="list-style-type: none"> <li>1. MI curriculum developed with Insurance Institute of Egypt</li> <li>2. Strengthen MI Committee</li> <li>3. Implement PPPs with insurers for ag and health insurance</li> <li>4. Enhance distribution flexibility and capacity</li> </ol>	<ol style="list-style-type: none"> <li>1. Development of curricula for schools</li> <li>2. Coordination of donors</li> <li>3. Develop market education tools and tracking methods</li> <li>4. Conduct a Public Good demand study</li> </ol>

Figure 4. National Strategic Roadmap of Microinsurance Development

Phase one achievements and outcomes focused mainly on the first pillar, resulting in FRA issuing a microinsurance directive in November 2016, which was the first regulatory legislation in Egypt to stipulate microinsurance, define it, assign it legal distributors, and provide a structure for electronic issuance and distribution of its policies. The issuance of this directive was, with no doubt, a vital building block in the establishment of microinsurance in Egypt and one of the most important outcomes of FRA’s cooperation with JICA.

### Microinsurance Platform: movements from the Private Sector

Another important outcome was the establishment of the Microinsurance Platform under the Insurance Federation of Egypt (IFE) that encompassed diverse stakeholders from IFE, FRA, insurance companies, brokerage companies, and development partners including the German Federal Enterprise for International Cooperation (GIZ) and JICA. This platform provided the needed chance for all stakeholders to meet, discuss, and share ideas, experiences, needs, and action plans for the development of microinsurance in Egypt. The stakeholders always had matters to bring to the platform and the discussions continued to show what the market needed and what was missing, which in turn inspired each of the stakeholders to take initiatives in their capacities to fulfill these needs, gaps, and partnerships – many of which will materialize in the years to follow.

The proactivity of FRA in issuing a directive, and that of the stakeholders in the Microinsurance Platform, proved the presence of promising grounds with ambitious and committed stakeholders. This ambition, commitment, and awareness of needs required for microinsurance is the note on which the first phase ended on in March 2017 and

the ignition of Phase two in April 2017.

## Phase 2 Capacity Development of Key Stakeholders

The awareness of the needs for all the stakeholders made it apparent that there is a need now to work on capacity building as an element in fostering microinsurance in Egypt, and this means from the regulator, to the insurer, to the intermediaries. Therefore, FRA and JICA started to put an emphasis on the third strategic pillar, “Market Development and Education” in parallel with the second pillar “Private sector participation” in the Strategic Roadmap, focusing on the importance of human capital investment. In order to build capacities of different stakeholders and ensure the sustainability of the capacity building process, the project, by the expertise of the Microinsurance Center (MIC), developed curricula for training programs and diplomas to be delivered through the key training institutes of the field: the Financial Services Institute (FSI) of FRA and the Insurance Institute of Egypt (IIE) of IFE. The capacity building plan included four main components: (1) curriculum development and training of trainers (ToT) for FSI’s training programs; (2) curriculum development and ToT for IIE’s Microinsurance Diploma; (3) knowledge exchange event and dissemination; and (4) a second study tour in the Philippines. JICA dispatched a microinsurance human capacity development expert from Almec VPI, Mr. Kenta Ohno and teams of the MIC led by Mr. Michael McCord to support this phase.

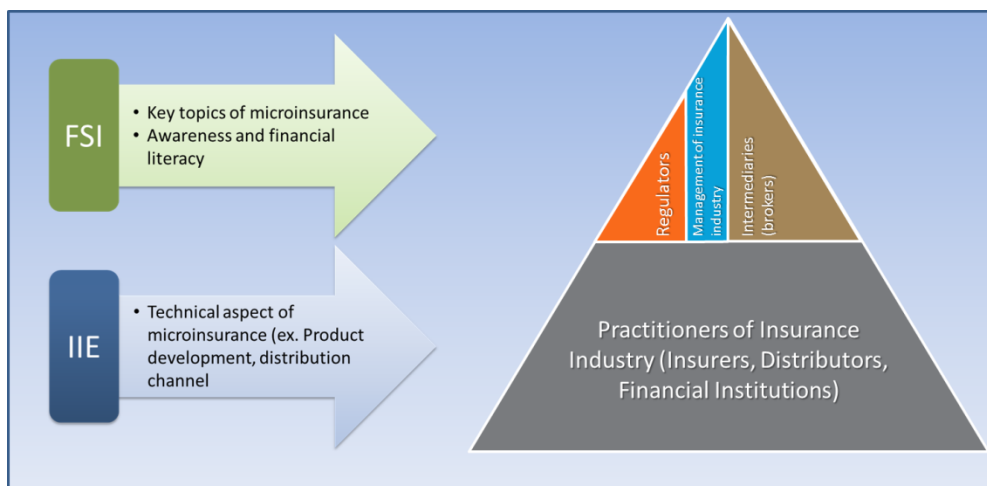


Figure 5. Roles of FSI and IIE in the project

### Financial Services Institute (FSI): Building Capacity of the Key Stakeholders

FSI being the training arm of the regulator, FRA, and tasked with licensing intermediaries and training regulators, it naturally meant to channel the capacity building of the regulator and intermediaries through FSI. Curricula was developed for two training programs under FSI; a high-level staff training targeting regulators and relevant management-level staff at FRA, and fundamental microinsurance training for intermediaries. Each training program first conducted a ToT for trainers from the training institutes, then a public training is conducted where the trainers would conduct the public training under the supervision of their trainer, Mr. Michael McCord of MIC.

### Insurance Institute of Egypt (IIE): Building Capacity of Private Sector

Another key training institute for the insurance market was the IIE which has been providing trainings and diplomas certifying insurers in all areas of insurance from marine to medical insurance. Therefore, with the interest

of the market in capacity building in microinsurance and with the nature of the institute came the idea of developing curricula for a Microinsurance Diploma making it the first microinsurance diploma in the world. The development of the diploma, also, started with a ToT phase where trainers from the market and IIE were trained on its components in order to insure the sustainability of the diploma. The diploma received high demand with registration exceeding the capacity for its first round of 2017/2018 and filling the seats for the following year 2018/2019. JICA together with MIC supported the IIE for developing one prerequisite course and 12 courses for the diploma. Each participant was required to take one prerequisite course, four core mandatory courses and 4 optional courses, in order to be able to take the exam and graduate the diploma. In April 2018, 32 participants graduated the Microinsurance Diploma and three trainers were certified to continue to teach the diploma.

The demand on the Microinsurance Diploma indicated the interest of the market to continue to learn and establish microinsurance fully in their companies. The participants of the Microinsurance diploma included not only mid-level staffs but also high-level management which proved that the managements of the insurance companies also believe and are keen that they start to become part of a microinsurance market; a matter that defeated the presumption that some managements could be resistant when the company staff start to advocate for the initiation of microinsurance products and departments in their companies.

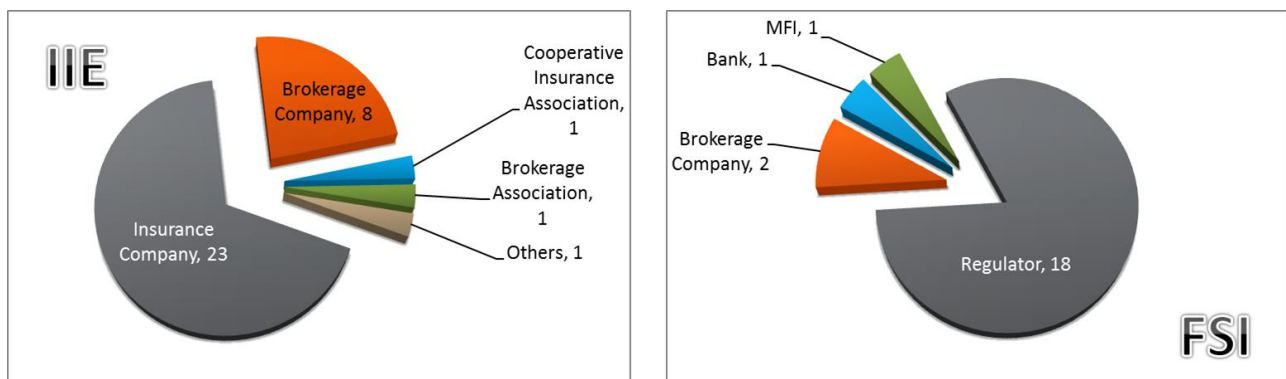


Figure 6. Compositions of Attendees

### Bridging International Knowledge

Other than capacity building training programs, there was the need for all stakeholders to exchange knowledge first hand with those who have succeeded in establishing microinsurance in different yet similar communities and markets. Therefore, JICA and FRA, saw the need for an international knowledge-sharing event where microinsurance providers from different countries would share their experience and knowledge, and provide an opportunity for the stakeholders of the Egyptian market to engage with those who represent these successful best practices. Accordingly, JICA, jointly with the German Federal Enterprise for International Cooperation (GIZ) and SANAD Fund for Micro, Small and Medium Enterprises, organized an event with microinsurance providers from Morocco, Jordan, and Ghana shared their experiences and lessons in establishing microinsurance for a low-income market, proving that there can be a profitable business-case out of microinsurance with a clientele like that of microinsurance, while also helping insure the low-income segment against the many risks they face. The event was planned for two days with 200 participants, the first day designate for showcasing the successful business models



and the second day was a technical workshop for the participants.<sup>13</sup>

### Understanding the Demand: Preliminary Demand Study<sup>14</sup>

With efforts of capacity building of diverse stakeholders, interest and efforts from the regulator, and interest from the market, data was necessary for those who intend to supply microinsurance products from the demand side; however, there was a lack of data when it came to the demand side. Therefore, FRA and JICA saw the obligation to respond to this need and gap by conducting a preliminary qualitative demand study on the Egyptian low-income population to understand: (1) the risks people perceived they are exposed to, (2) how the people/households currently cope with these risks and their financial implications, (3) how households consider and rank these risks, (4) the risk management gaps that might be filled by microinsurance, and (5) the level of awareness of and attitudes towards insurance among the low-income population. The success factor of the survey was that FRA, the regulator, understood the importance of collecting data and supported the survey throughout the process.

In order to understand the aforementioned areas, the study was designed to address three main objectives – (1) explore the events and/or risks that this target market faces that cause economic stress and assess the impacts of these events/risks, (2) assess and determine the current risk management strategies that people are using to cope with these risks, and (3) explore and identify the gaps in these current coping mechanisms which might be addressed by microinsurance, through the methodologies of focus group discussions (FGDs) and key informant interviews (KIIs). The study's target areas were set to be diverse to an extent in terms of poverty rate and geographical diversity, including Sohag and Aswan, representing governorates with highest poverty rates and Upper Egypt, Minya, which represented a less severe poverty rate, and Monufia which represented a medium-level poverty rate.

Through the support from the FRA, the study conducted four FGDs in each of the four governorates – two FGDs in rural areas, comprising one group of females only and one of males only, and similarly two FGDs in urban areas – constituting a total of 16 diverse FGDs. FGDs constituted of individuals ages 20-60 who are living with spouses and/or children and classified as “low-income” either self-employed or low-skilled workers. As for the KIIs, eight KIIs were conducted – two for each governorate, one with an individual from a rural area and another with one from an urban area.

Across all the governorates, majority of FGD participants were not only characterized by low incomes but also by the uncertainty of the cash flow of these low incomes, not having bank accounts, and with very low willingness to borrow from banks (due to high interest rates) or MFIs (due to fear of inability to pay as a result of the irregular income). The most common sources of household income were daily labor activities in construction sites or mines, drivers, transporting items via tricycles, repairmen, daily labor for farms in harvesting season, cattle rearing, and more. 70% of male participants earn their income from irregular jobs, including projects offered by NGOs, while only 30% had a more regular income as employees in businesses or local government offices. Around 70% of females had some side jobs such as poultry farming, handicrafts, selling food, and other similar activities.

<sup>13</sup> For the detailed results of the event, refer to the following paper.

[https://www.jica.go.jp/egypt/english/office/topics/c8h0vm0000b819dr-att/170508\\_01.pdf](https://www.jica.go.jp/egypt/english/office/topics/c8h0vm0000b819dr-att/170508_01.pdf)

<sup>14</sup> For the detailed results, refer to the following paper prepared by JICA Expert Mr. Kenta Ohno (2018).

[http://www.fra.gov.eg/jtags/efsa\\_ar/pdf/Microinsurance-Demand-Study.pdf](http://www.fra.gov.eg/jtags/efsa_ar/pdf/Microinsurance-Demand-Study.pdf)

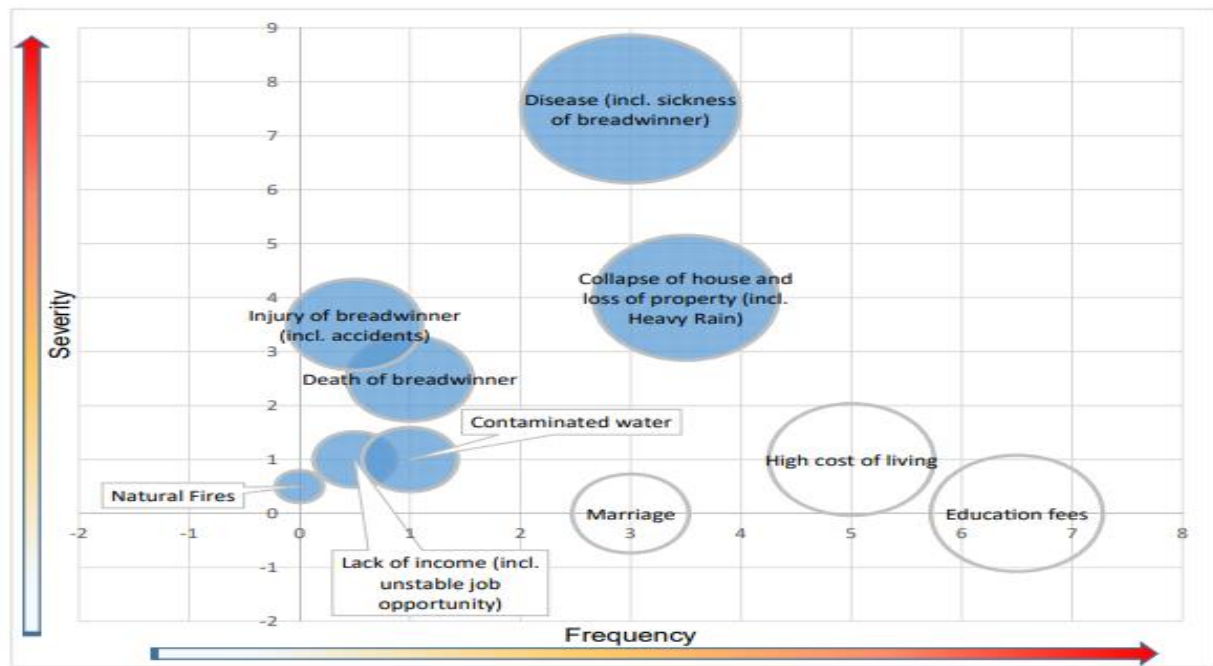


Figure 7. Frequency and Severity of Risks in Egypt

Participants, in addition to their low and uncertain irregular incomes, were continuously exposed to risks with financial impacts, which in turn hinders savings and escaping poverty. The participants were for frequency and severity of the risks and the study ranked the risks as follows: disease and collapse of house and loss of property (including those caused by heavy rain) ranked as most worrisome risks due to both severity of their implications and frequency; educations costs and high cost of living were ranked by participants as the most frequent “risks” that cause high financial burdens. Other risks included lack of income/stable income, death of breadwinner, injury of breadwinner, cost of marriage, and contaminated water and its implications. Ten out of the 16 groups ranked the risk of disease and injury as most severe, most frequent, or both.

For risk coping mechanisms, the most common response was that there was no strategic coping mechanism, participants seemed to deal with risks as they came on a case to case basis with not mechanism set in order to support them once a risk occurs. Almost all participants experienced and/or are part of a rotating savings and credit association (ROSCA), or gama’aya, which is a widely used shock absorbing method among most Egyptians. Others try to save a part of their income for the frequent events such as education costs, and marriage costs, others resort to cutting on spending by cutting on protein consumptions for example, other resort to charity from religious entities and/or NGOs, and borrowing money from family and friends – and as the severity of the risk increased, so did the response and its implications.

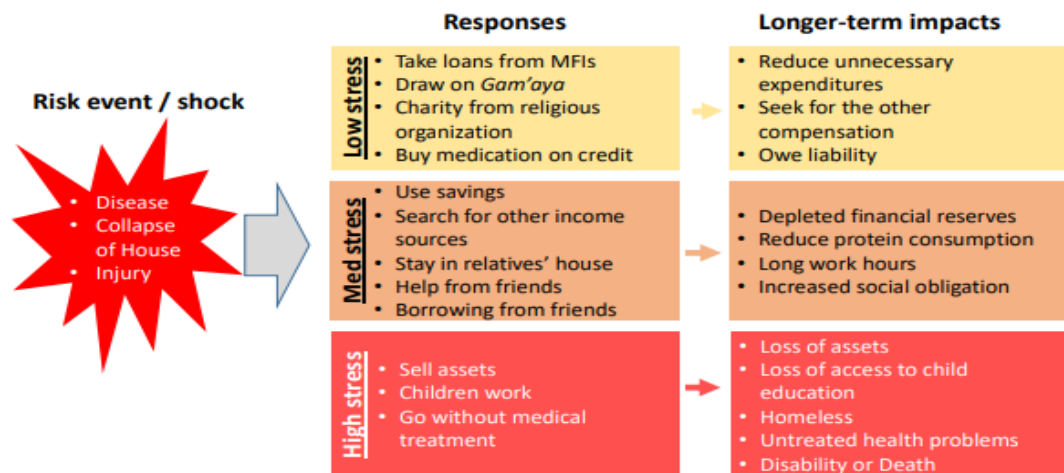


Figure 8. Responses and Impacts to Risks

After exploring the risks and the coping mechanisms, it has become apparent that there is an unavailability and shortcomings to the mechanisms that inevitably have a degree of stress on the target group, which in turn results in long term financial implications. Which demonstrates that if this target group had the access to an affordable, simple and trusted risk-mitigating mechanism, they would opt for it in order to cope with these risks and avoid further distress that they usually are unable to afford. However, 95% of all participants, 10% of all female participants, have never opted for insurance, and the most common understanding they provided when they heard the term insurance was the retirement pension program offered for public servants in Egypt. The reason they never opted for insurance was identified to be that they believe they cannot afford the premium, and for those willing they identified so only in the case of affordability. In addition to the assumption of insurance being expensive, the survey identified that the participants had no access to affordable insurance products.

With the existing severe and frequent risks, and several common areas of risks identified across diverse groups, accompanied with the aforementioned findings on the target group's perception of insurance, it is apparent that there is a need for affordable, accessible, simple products that meet the needs of low-income, risk-exposed population. Based on the survey, it is evident that microinsurance products such as hospital cash, property insurance, and others with saving functions such as education endowment would be in demand once made available and, as taught in the curriculum, SUAVE (simple, understood, accessible, valuable, and efficient).

The study provides further recommendations and insights rating risks from easy to insure to hard to insure as well as estimated affordable premiums. The study provides detailed needs and findings by governorate, by groups – urban and rural, male and female –, by risks, including documented findings based on life experiences of the diverse target groups. The study makes available a foundation of information the private sector can build on to better understand the market.

### 3. Impact and Way Forward

The impact of the project has started to flourish, where the microinsurance market has been recently rapidly expanding within Egypt both from the regulatory side and the private sector side.

### Regulatory side:

In April 2018, the Egyptian government represented in the Ministry of Investment and International Cooperation, and the Financial Regulatory Authority announced the launch of the National Strategy for non-banking financial activities (2018-2022) which aims at carrying out structural and legislative reforms to non-banking financial services sector in order to enhance the ability of poor groups to improve aspects of life, grant greater role for entrepreneurs and increase participation of SMEs in the economic growth. The National Strategy for non-banking financial services aims at building an integrated financial system at the local level and achieving integration with all parties involved in the financial system, especially the non-banking sector so that the stability of the financial system will be achieved, thus enhancing the ability of non-banking financial institutions to be an important partner in serving the national economy.

One of the highlights of this strategy includes providing more incentives for the private sector to expand business in non-banking financial services including microinsurance. FRA is also working with the other ministries and the parliament to conclude a new insurance law that will ease the insurance market to start and maintain new business targeting the low-income people. It is worth noting that staffs of the FRA who have participated in the Philippines study visit are the ones who are significantly contributing to drafting the new strategy and the insurance law and this highlights the importance and benefit of exchanging knowledge and learning from other experiences and best practices.

### Private Sector side:

In July 2018, The Insurance Federation of Egypt (IFE) has announced that a Microinsurance Committee has been formed under its supervision, which is a technical committee with the aim of enhancing microinsurance in the Egyptian market through its technical roles and developments; such as developing microinsurance policy templates, sharing data and findings on the market and its needs, etc. The Committee was formed as a result of coordination and cooperation with the Financial Regulatory Authority (FRA). The committee's membership includes representatives from all stakeholders related to microinsurance, diverse insurance companies, MFIs, brokers, and an observer member from the regulator. The committee is also tasked to act as a platform among the regulators, insurance providers and the distributors to discuss the market's challenges, come up with tangible solutions, and facilitate continuous collaboration among the stakeholders.

Participants who have attended the microinsurance diploma have started to disseminate the knowledge within their organizations. For example, one insurance provider has started to sell life microinsurance and hospital cash products in partnership with a prominent local NGO as a distributor. There is also a move from the private sector to collaborate with mobile network operators to expand digital insurance all over Egypt. Some of the participants have mentioned that the sustainability of the diploma and its impact would improve if stakeholders can also partner with the local universities in order to enhance financial literacy among the youth. Others have mentioned the importance of further strengthening the distribution channels, which is an essential factor to deliver the products to the beneficiaries and achieve the sought impact.

Development of microinsurance is still on its way. However, three years of cooperation between FRA and JICA has established a foundation that is significant for the expansion of microinsurance in Egypt. Key stakeholders in Egypt who have been trained are becoming the initiators/catalysts of the market and are bringing around social

change. This report will conclude by thanking all the stakeholders who have contributed to this significant step and reiterating the importance of human capacity development to enhance financial inclusion and microinsurance development in Egypt and its inevitable and essential role in social development.

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