

# Micro Insurance- A Transformative experience

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## Credits

- Sources of information from presentations and publications by:
  - Michael McCord
  - Craig Churchill
  - Oliver Zenklusen
  - Denis Garand
  - John Wipf
  - Allianz publication
  - Others

## Outline of presentation

- Background of why/what Microinsurance
- Implementation Microinsurance
- Product Design
- Operation
- Sales
- Conclusions

## Millennium Development Goals

- Eradicate extreme poverty and hunger
- Universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Combat HIV/AIDS, Malaria, and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

## Importance of MicroInsurance

- In its first report, *Insuring for Sustainability*, the Insurance Working Group of the UNEP FI ranked nine global sustainability issues identified as vital for insurers to address.
- Topping the list is climate change,
- Followed by microinsurance, lifelong income, health, emerging man-made risks, environmental liability, natural resources, recycling and internal resource efficiency.

## What is MicroInsurance?

## Microinsurance is.....

- Insurance for the Poor (simplest definition)



## Microinsurance is.....

- “...the protection of **low-income** people against *specific perils* in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved”  
~ *Draft Donor Guidelines, CGAP Working Group (2003)*
- “...not a specific product or product line. It is also not limited to a specific provider type. Microinsurance is the provision of cover to a specific market segment, i.e. **low-income persons.**” ~ *IAIS Issues Paper (2007)*



## Who is Involved?

- ILO
- CGAP
- World Bank
- Bill and Melinda Gates
- Bill Clinton (LeapFrog)
- Other agencies
- Insurance companies world wide

## The need for MicroInsurance – start with Micro Financing

- Micro Financing is an effective tool in reducing poverty.
- Founded by Muhammad Yunus (Grameen Bank in Bangladesh)
  - Lending without collateral
  - Doorstep service
  - Small payments
- Impact on 110 million poor
- Spandana



## The need for MicroInsurance (con't)

- Those utilizing MFI's were more vulnerable to "risk events" and when these events occurred the poor would spiral back into poverty and have to borrow money.
- A cycle of "poverty – improving financial situation – risk event – borrowing – poverty" was occurring.
- Micro insurance is a tool to sustain the forward financial momentum even when a risk event occurs.

## What is MicroInsurance?

- Protects low income households against risks
- Products are specifically designed for the challenges the target market faces
- The low income households are exposed to more risk
- The poor are more vulnerable as current coping strategies continue poverty cycle

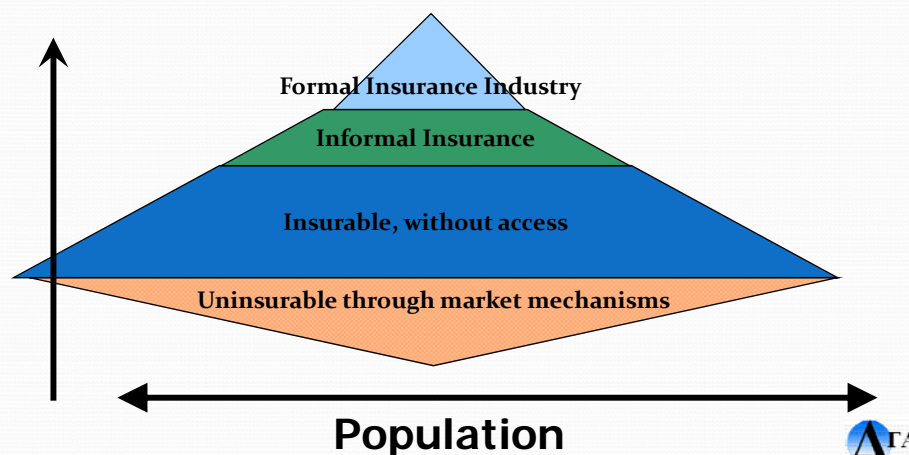
## What is Microinsurance?

- Helps the poor **manage** their risks (i.e.) Health, death, funeral costs, agricultural (drought, crop disease, land exhaustion)
- Cannot eliminate poverty on its own
- Along with other risk management tools can make a valuable contribution to reducing poverty.



## Who is Insured by Whom?

Source: Craig Churchill, ILO, Introduction to Microinsurance, Wealth



## Most Common Types of MI Products

Source: The Landscape of Micro Insurance in the World's 100 Poorest Countries Roth, McCord, Liber



## Characteristics of the Insurable Poor

- Vulnerable to Risks
- Often work in the informal economy
- Irregular cashflows
- Often manage risk informally, often through social networks
- Not very familiar with formal insurance
- May not trust insurance companies

Source: Craig Churchill, ILO. Introduction to Microinsurance, Microinsurance Conference, Mumbai 2007



## Key Stakeholders

- Insurance Company
- MFI, NGO, CBO, Co-op etc.
- Healthcare providers



## Why Micro Insurance?

- Extend social protection in the absence of government schemes especially for those in the informal economy.
- New market for insurers – Approx 4 Billion people live on less than \$2 US a day – insurable without access to insurance.
- Learnings can be transferred to higher income markets (I.e.) communication, efficiencies, distribution



## How is MI Different from Regular Insurance?

- Relevant to the risks of low income households
- As inclusive as possible.
- Affordable premiums: often more frequent than annual pays, small sum insured
- Grouping for efficiencies (Co-ops, MFIs etc.)
- Simple and straightforward as possible



## How is MI Different from Regular Insurance? Con't

- Usually covers all members of a household
- Often products are bundled as one product covering several risks
- Easily accessible claims documentation requirements
- Strategies to overcome the wariness of customers due to unfamiliarity with insurance.



# Implementing Micro Insurance

## Discussion

- If you wanted to enter the MI market with a new product what process would your company typically follow to:
  - Choose a product
  - Price the product
  - Distribute the product

## Case Study

An insurance company in the Pacific Region entered the MI market:

- A bundled Endowment , disability, accident and funeral product
- Followed a Traditional Insurance approach
- After 3 months had sold only 300 policies.

## Case Study

What happened?

- No demand study
- Not affordable
- Not enough benefit value to the client
- Ineffective Distribution channel

## Recurring Challenges in MicroInsurance

- Microinsurance is different from traditional insurance and requires a variety of approaches, but **simplicity** is key.
- Building market awareness is essential in microinsurance.
- Microinsurance needs efficient delivery channels, but these are hard to find.
- Microinsurance needs highly efficient processes and IT.

## How far have we come?

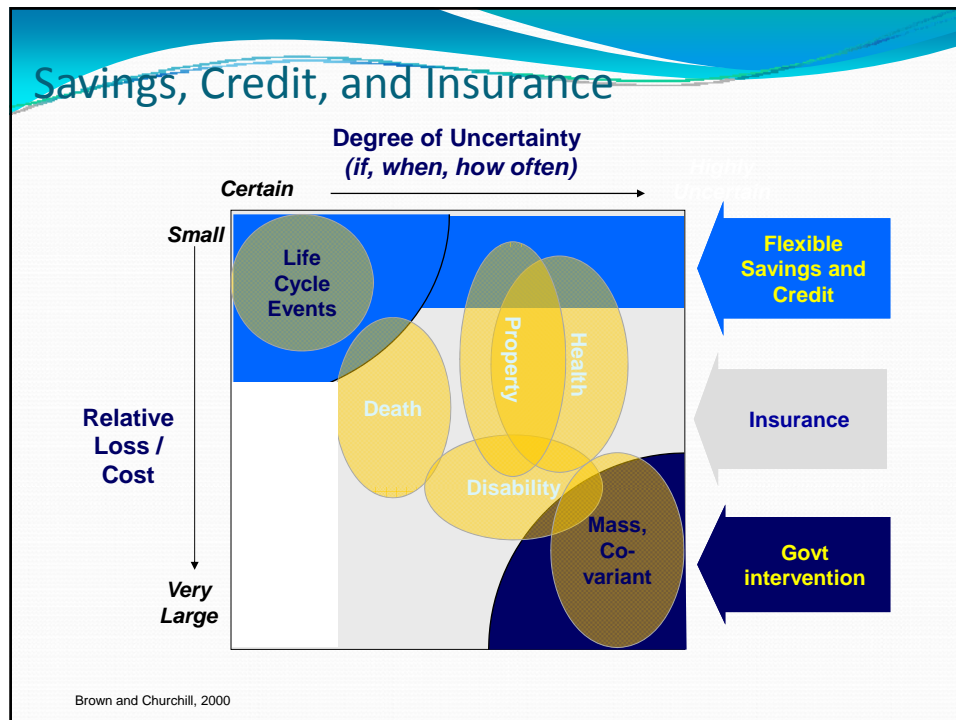
- In 2005 the Microinsurance Network published a paper titled "Lessons learnt the hard way". These unique tales of challenges and mistakes and how they were overcome were meant to help the industry and market entrants to start climbing the microinsurance ladder from a few steps further up – to their and the whole sector's benefit.
- Five years later, we observe that many of the same lessons in microinsurance still are being learnt the hard way. The same mistakes are being repeated over and over again.



## Why, for example....

- Are so few organizations researching before diving in to offering Microinsurance?
- Are there still new products being developed without the benefit of understanding the needs of the market? Such products invariably create market difficulties and make microinsurance harder for people to appreciate.
- How can we ensure that what one program learns from such experiences is shared across the industry so that others can build on them?

## Product Design



## Lessons

- Health Insurance is in high demand, but complex to implement
- Demand Studies are essential
- The differences in the market forces MI to create a better product that has value to the customer
- Pricing needs to be reviewed regularly as experience varies.
- Product needs to be Simple.

## Demand Study and Needs Assessment

- The demand for microinsurance grows out of the *risks* and *risk management* strategies of low income households
- Understanding the critical gaps in managing risks is a starting point for identifying microinsurance products for the poor

## Demand Study and Needs Assessment

- Enhances product design
- Identifies steps to be taken to ensure products address the unique needs of the poor

## Enhances product design to

- Zero in on insurable risks
- Design products that are feasible, acceptable and affordable
- Find type and level of coverage that low income groups need
- What exclusions, premium amounts, payment options and payment systems fit with their preferences and capacities?

## Topics to Address

- Social characteristics of target market (I.e.) age, gender, marital status, education, literacy levels
- Economic characteristics: (I.e.) cashflow patterns, monthly income, savings/loans
- Nature of risks and life cycle events that cause high levels of economic stress
- Impact of risks (I.e.) type, impact and severity of loss

## Topics to Address con't

- Current coping strategies, the level of stress they create and their effectiveness
- Client satisfaction with existing insurance products

## Market Research

- Types of insurance needed
- Types of insurance that can be afforded
- What products are feasible to deliver



## Understanding Client's Needs

- Key risks facing poor people
- Impact of the risks
- Existing coping mechanisms and its effectiveness
- Role that microinsurance can play
- Helps identify appropriate product attributes
- Appropriate controls for the size of the benefit

## Product Specific Research

- Carried out during the development, testing and/or delivery of product
- Determine customer satisfaction and loyalty
- How does product match the needs, preferences and income capacity of the customers?

## Size of Potential Market

- Estimate number of policyholders in geographic area along with demand and capacity to pay.
- Helps identify financial feasibility, profitability and pricing info and potential markets.

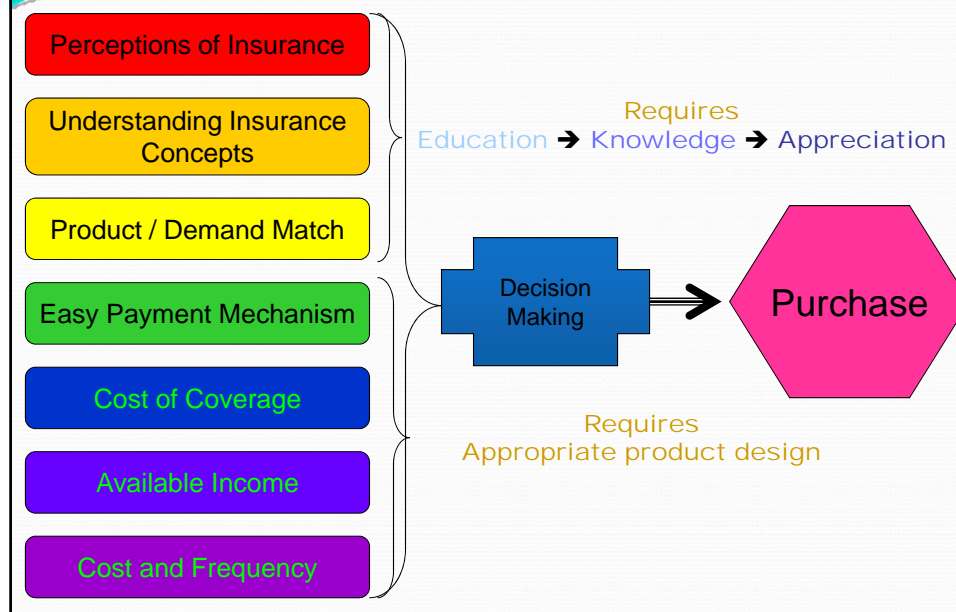
## Key Steps in Market Research

- Define the target market in a region
- Identify insurable risks
- Determine important product features
- Establish willingness and ability to pay
- Ongoing market research
- Client education
- Competition

## Importance of well designed research

- If you are earning \$1 a day, would you be willing to buy health insurance?
  - What is the answer?
  - Is this a good question?
  - If not what question would you ask to understand the need of health insurance
- Example of CHAT, other research....
- Remember the basic data requirements

## Factors in Microinsurance Purchases



## Pricing

### **Basic pricing components:**

- Needs to develop budgets on plan implementation to developed a realistic expense component
  - (Donors may help fund start up cost)
- Estimate expected claims
- Add a small margin for profit/surplus.
- Large changes in price are a problem. It is always easier to lower a price than to raise it.

## Simplicity is necessary

- Clients have low insurance knowledge
- Low literacy in these areas
- Make the policy easy to understand.
- Make the claims process easy and practical.

## Operations

## Lessons

- Collecting premiums and settling claims requires lots of Customer interaction.
- Lack of access and distance pose challenges
- Utilize Existing Networks
- Technology



## Customer Interaction

- In person collection is required as most clients do not have bank accounts for automatic deductions
- Premiums usually collected at group meetings.
- Need guidance through claims process
- How is claim paid to client?

## Lack of access

- Rural areas may not have paved roads or cell phone service
- Distance to branches may be too far for clients to pay premiums.
- Access to medical services or qualified doctors/nurses pose challenges

## Utilize Existing networks

- Marketing must be transparent and build trust.
- Using a delivery partner such as MFIs, employers, NGOs, retailers, and charitable organisations provides access to clients, but does not guarantee successful sales.
- MFIs struggle to justify the time needed to sell voluntary policies for low commissions, even though secondary benefits, such as lower credit risk from healthier clients may make it worth the effort.
- Lots of training is required for the delivery partner.

## Technology

- Dealing with large numbers of clients and low premiums, settling claims fast while still controlling fraud, and selling policies requires good MIS.
- Distribution partnerships data transfer to the insurer has to be swift enough, both for the administration of individual clients as well as for capturing performance indicators and extracting actuarial data.
- The right IT systems need to be introduced at the right time and in the right way can make or break a microinsurance business.

## Technology

Key lesson:

- Microinsurers should prepare processes for large transactional volumes, create and manage electronic links with its delivery channels, and collect and use key performance indicators on all operations.

## Sales

## Lessons

- Education and awareness around the concept and benefits of insurance is essential
- Build Trust

## Education and Awareness

- Clients in target markets may never have heard of insurance so expecting low-income markets to embrace microinsurance products is a mistake that may lead to unnecessary disappointment.
- Building awareness may take time and resources beyond those of an individual programme. What will work depends upon culture, history, and institutions trusted by people.
- Clients need to fully understand what is covered and the claim process



## Education and Awareness

Examples:

- In ex-Soviet regions, awareness campaigns have to deal with negative past experiences with insurance.
- In Islamic countries Takaful products have emerged to address religious concerns, and services offered sometimes are not even labelled insurance to help people move beyond the negative perceptions.
- Used Radio spots, theatre and songs, comic books etc. Images and metaphors work better than jargonise: "Insurance is like an umbrella" rather than "Insurance is a risk-pooling arrangement ...".

## Build Trust

- Establish value - Product needs to be specific to the group's needs
- Link to community (NGO) - Training of staff is essential for good service
- Start with simple products to establish familiarity.
- Customer contact/feedback helps build a better product later on.
- Informal "Word of Mouth" is key.
- Clients need to see payments being made.



## Outreach and Profitability

### Lessons

- There is a large potential MI market that is untapped
- As there is a low premium, a large volume of policies need to be sold
- Keep costs low – efficiencies in administration and distribution are necessary.
- Variety of delivery channels

## Conclusion

## Conclusion

- Reinventing the basic insurance principals
- The non traditional environment does create Issues for Actuaries working in MI
- Lots for an insurance company to learn – look at the business differently.

## Issues for Actuaries working in MI

- Lack of technology
- Lack of data – within country, organization
- Be Flexible
- Sensitive to the target population
- Lack of insurance knowledge in MI organizations
- Challenges
  - High mortality, morbidity, assets at risk
  - Low administrative margins
  - Clients only have ability to pay small amounts
- Understanding the context is a large part of pricing

## What Insurance Companies can Learn.

- Creating efficient organizations
- Creative solutions
- Understand real service issues
- Development opportunity for your staff
- **Transform your understanding of insurance and management.**