Compulsory Insurance Sounds Amazing!

- The government does the selling for you
- Everyone is required to buy and maintain insurance … which is just good for them anyway
- All you need to do is price it, sign it, and service it
- So, this should work for emerging markets insurance, too, right?
- Developing insurance markets arguably needs cover more than anyone else

Compulsory: If, If, If, If

- If it’s going to work, it has to be REALLY compulsory
- If it’s going to stick, you need to build in a monitoring mechanism
- If it’s going to be effective, you’ll still have to invest in financial education
- If it’s going to be compulsory, it still has to be affordable

And even then, compulsory microinsurance won’t be the same as compulsory auto in Massachusetts!
What Can We Learn From Compulsory Schemes Worldwide

- PAID (Romania)
  - 20% penetrated
  - No real monitoring or enforcement mechanism
  - Requesting more govt intervention and support
- TCIP/DASK (Turkey)
  - 40+% penetrated
  - 56+% retention
  - Proof of insurance required up front
  - Marketing used to drive retention (no subsequent check)

Since we’re on the subject of Turkey … let’s take a look at something else

Customer Retention Through Insurance

- Turkish telecom provider: TRY500 in terror cover
- Bonus for being a loyal customer
- 500,000 policies in force
- Triggered in 2016 (PCS Turkey Cat 1613)
- Terror attacks in Şırnak, Mardin, Hakkâri
- Avg personal claim: TRY26,000
Nothing Beats Real Selling and Real Value

- Compulsory protection can only get you so far – especially in microinsurance markets
- Financial education and affordability will always be major factors
- Mandating protection fails to solve the real problem
- The market needs to know what coverage is, what it does, and why it’s important
- No program can become self-sustaining without an informed customer base

So, How Do You Sell Emerging Markets Insurance?

- Think back to that Turkish telecom provider: partnerships are crucial!
- Look for local market players with:
  - Large customer bases
  - Deep local market understanding
  - Frequent and regular transactional relationships
  - Level of trust with customers
  - Clear trustworthiness in dealings with you
- And you need to provide:
  - Tools for marketing and selling
  - Product information and knowledge
  - A useful, valuable product at a viable price point
  - Commitment to ongoing support
  - Sufficient patience
  - A realistic revenue stream for your local partner

A Look at Global Retailers

- Of the world’s top 100 retailers:
  - 26 in Latin America
  - 17 in Africa
  - 15 in the Philippines
  - 14 in India
  - 5 in Pakistan
- And this is just a look at some regions with microinsurance potential
- You can achieve scale with the right global partner

Sophisticated retailers will require a clear value proposition: You’ll face competition from:
- Banking and financial services products
- Telecom products
- Core retail priorities
- Global corporate initiatives
The Real Temptation of Emerging Markets Insurance

- Profitable business with the potential to scale significantly over time
- Ability to grow alongside overall economic growth and middle class development
- Entry of more original risk into global re/insurance
- A top-line alternative to standard soft market thinking... when you can grow? For decades?

Now, let's talk about how potential distribution channels could work!

Microinsurance Product Examples

<table>
<thead>
<tr>
<th>Name of Partnership</th>
<th>Branding</th>
<th>HDFC/FINO</th>
<th>Malayan CLIS</th>
<th>Hollard Edcon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>Life + Accident + Disability</td>
<td>Health + Accident + Fire</td>
<td>Life + Accident + Disability</td>
<td>Life + Accident + Disability</td>
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<tr>
<td>Product Term</td>
<td>Annual</td>
<td>Annual</td>
<td>6 months</td>
<td>Monthly Recurring</td>
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<tr>
<td>Average Monthly</td>
<td>2.30</td>
<td>2.44</td>
<td>2.16</td>
<td>4.90</td>
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<tr>
<td>Premium (USD)</td>
<td>2,200</td>
<td>2,388</td>
<td>130</td>
<td>1285</td>
</tr>
</tbody>
</table>

High Variety and Low Premium: Efficiency is Key

Source: "Achieving Scale and Efficiency in Microinsurance through Retail and Banking Correspondents" Jeremy Leach, et al.
Function of Distribution Channels

- More than just sell the product
- What can the channel do for me?
- What value can I bring to the distributor?
- Trust, efficiency and scale

A number of new Microinsurance distribution models have evolved that rely on the utilization of partnerships with organizations not traditionally in the insurance space.

Choices of Channels

- Financial Institution
- Community-Based Organization (CBO)
- Postal Network
- Retailer
- Mobile Network Operator (MNO)
Financial Institutions

- **Organizations**: microfinance institutions (MFIs), credit unions, cooperatives and commercial banks
- **Advantages**: offer an existing client base and payment platform; financial protection for the bank loan
- **Most often sell**: mandatory products, life products, some health products

Women’s World Banking Ghana linked free life insurance to savings account

Source: Microinsurance Distribution Channels, Alice Mary et al.

Community-Based Organizations (CBO)

- **Organizations**: Community groups and faith-based organizations
- **Advantages**:
  - Can group large number of people
  - Perceived as trustworthy
  - Familiar with the customers’ needs
- **Most often sell**: voluntary or mandatory products, wide range of product lines

China Life sells village policies on Accident + Health insurance

Postal Office as a Distribution Channel

- **1.5 billion people** get access to financial services through post offices, only 38% of which offers insurance

- **Three business models** to sell insurance:
  - Agency partnership
  - Full-fledged partnership
  - Own insurance

- **Most often sell**: life and disability insurance
Retail Channels

- **Organizations:** Supermarkets, appliance stores, agricultural input retailers
- **Advantages:**
  - Efficient and convenient premium payment mechanisms
  - The retailers' brand helps overcome distrust of insurers
  - Adjacencies align incentives between the partners and improves client value
- **Most often sell:** voluntary products, life, disability and agriculture products

Partnering with Mobile Network Operators (MNO)

**Scale:** Vast pool of mobile phone subscribers, the majority of whom do not have insurance

**Benefit to Insurer:**
- Efficient enrollment and claim processes
- Better customer care

**Point of Interact:** MNO are highly visible and assessable to people of all income levels

**Benefit to MNO:**
- Additional revenue stream
- Differentiation from the competitors

Is the Channel Right for My Target Market?

Sequence the use of distribution channels according to the maturity of the target market
Key Success Factors

Adequate Incentives  Leveraging the Brand  Efficient and Convenient Network

Sequencing According to Market Maturity  Combining Resources in Creative Ways

Questions  Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.
The views expressed in this presentation are those of the presenter.