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Microinsurance in a Nutshell: Only for Africa?

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Microinsurance in a Nutshell: Only for Africa?

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Microinsurance in a Nutshell: Only for Africa?

Executive Summary

The journey for microinsurance, nowadays called inclusive insurance, started a long time ago and is not complete in the majority of the low-income and low middle-income markets. When seeking to enhance inclusive insurance markets, it is useful and necessary to have a good understanding because it entails a different treatment of customers, distribution, products, pricing, client management, premium collection, claims declaration and settlement, and reporting.

Inclusive insurance provides insurance cover to unserved or underserved populations by conventional insurers, through a diversity of entities and based on general accepted insurance principles. Insurance, in general, and inclusive insurance, specifically, contribute to the achievement of the UN Sustainable Development Goals. The insurance supervisors put in place specific regulatory frameworks to promote and develop inclusive insurance markets. This is necessary to introduce proportionate rules and to ensure consumer protection of financially vulnerable policyholders.

Inclusive insurance products are S.U.A.V.E.: Simple, Understood, Affordable, Valuable and Efficiently managed. Products take into consideration the needs and the willingness to pay of the customers. Limitations of data of the targeted markets and scarce technical/STEM skills have an impact on pricing. Therefore, products are ideally launched in a ‘sandbox’ environment to allow the different stakeholders to ‘test and learn,’ modify the product if necessary, and deploy gradually or, if necessary, discontinue the product.

Despite serious limitations on available data about inclusive insurance in Africa, it can be said that short-term products, such as credit life, life covers, funeral insurance, and hospital cash benefit, are abundant products in all countries. Index-based crop and livestock products get financial and technical support from supranational institutions and the targeted population being smallholder farmers are getting subventions in some countries. New distribution channels, close to the targeted populations and employing MI agents, are entering the various markets.

Partnerships are crucial for the success of MI programs. Those partnerships usually consist of the insurer, the distribution partner and a FinTech/InsurTech services provider. The most mature partnerships support mobile insurance, being the driver of microinsurance in Africa. Besides mobile insurance, digitalization is progressing, but at a different pace in the various African countries. The insurance supervisor plays a leading role in this innovation process.

Section 1: Introduction

Microinsurance is an insurance mechanism characterized by simplicity of coverage, underwriting formalities, contract management, payment of premiums or contributions, claims reporting, and settlement and aimed at protecting low-income individuals and nano, micro, small and medium-sized enterprises against specific risks in return for the payment of premiums or contributions.

Microinsurance can make insurance coverage more affordable for low- and middle-income countries. It contributes to the realization of the United Nationals Sustainable Development Goals *decreasing poverty (see Goal #1 in figure 15)*.

For many years, microinsurance was considered the insurance for the poor. Now, this has evolved to ‘emerging’ customers or people who are underserved (which led to the new name: inclusive insurance). Those ‘emerging’ customers or ‘underserved’ people exist in all countries. Therefore, the concept of ‘microinsurance’ can be used everywhere; the contents depend upon the cultural, socio-economical, religious, regulatory, and political environment. Already today, insurance supervisors of developed countries have a direct/explicit mandate for ‘financial inclusion,’ amongst them are the NAIC (USA), the insurance supervisors of the states of California, Maryland, Missouri and Washington (Issue paper “Supervisors’ Use of Key Indicators to Assess Insurer Conduct.” June 2022. IAIS.).

Income inequality has been growing in developed countries and, in particular, in the USA over the last decades, negatively impacting the increase of gross written premium. Introducing microinsurance in developed countries may help counter income inequality, leading to economic growth, higher insurance penetration and social cohesion.

This study introduces microinsurance with African field experience and expertise. It also demonstrates that this insurance mechanism has a vital role to play in developed countries to avoid the middle-income class falling into the low-income class and the low-income class into poverty, providing increased protection for households and MSME (micro/small/medium enterprises).

Section 2: What is Microinsurance

2.1 DEFINITION OF MICROINSURANCE AS FORMULATED BY IAIS IN 2007

Microinsurance is insurance that is accessed by low-income populations, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles).[1]

2.2 ROOTS OF MICROINSURANCE

The insurance industry has microinsurance in its genes. From the risk-pooling by artisans' guilds and friendly societies to the introduction of industrial insurance in developed economies during the last two centuries, insurers have recognized for a long time that the risk management needs of lower-income people could form the basis for a viable business model.

The socio-economic environment in low-income and low intermediate income countries is comparable with the origins of industrial insurance and offers market opportunities for innovations. Community-based groups (tontines, susus, micro-savings groups), funeral parlors, associations, micro-financial institutions and extended families are common risk management mechanisms. Income is low and mostly irregular, used for essentials and with no or little surplus. The majority of the active population is excluded from the traditional banking sector, not having checks or credit cards. Micro-financial institutions, mutuals and cooperatives fill the gap. In this environment, the majority of the population has a mobile phone, opening new horizons for money transfers and alternative payment mechanisms for goods and services.

In this environment, microinsurance started informally - and continues informally despite the willingness and regulatory incentives of authorities to formalize them - and became a formal financial service thanks to projects funded by supranational institutions (e.g., ILO, WB) and national development agencies (e.g., GIZ).

In 2007, the IAIS defined microinsurance in the document "Issues in Regulation and Supervision of Microinsurance" (June 2007) as follows:

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). Importantly this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums. The microinsurance activity itself should therefore fall within the purview of the relevant domestic insurance supervisor.

[1] Issues in regulation and supervision of microinsurance – IAIS June 2007

2.3 CORE PRINCIPLES OF MICROINSURANCE OR THE 'SUAVE' ACRONYM

The core-principles ruling successful microinsurance products are S.U.A.V.E., defined by Michael McCord, Milliman - MicroInsurance Centre. SUAVE stands for Simple, Understood, Accessible, Valuable and Efficient (see appendix C for more information).

When those principles are met in the design of microinsurance products, the clients will buy products that appear to be a good deal, meet their needs, are easily obtained and paid for, managed at a distance without complications, and easily understood in their language. The microinsurance providers will benefit from it with higher take up rates and greater trust and loyalty.

2.4 EVOLUTION TOWARDS INCLUSIVE INSURANCE

Nevertheless, the 2007 definition of IAIS is essentially the same as one might have for regular insurance, except for the clearly prescribed target market: low-income people. ”Low-income” was transformed easily into ”poor.” How poor do people have to be for their insurance protection to be considered ”micro?” The answer varies by country, but generally microinsurance is for persons ignored by mainstream commercial and social security schemes, persons who have not had access to appropriate financial products.

However, contrary to microcredit," the term "microinsurance" did not convince many people. The low-income people were interested in microcredit but were not interested in small coverages. Insurers were not interested because ”small” premiums did not cover their management expenses.

The diversity of situations led to the rejection of the vision of an insurance intended only for the "poor" or so-called "low-income" populations.

This type of product really took off thanks to the G20 leaders at the Cannes Summit in 2011 recognizing that financial inclusion is a key enabler in the fight against poverty. While the IAIS was defining inclusive insurance in an Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets (October 2012), the Global Partnership for Financial Inclusion (GPFI) developed a comprehensive set of financial inclusion indicators aiming to deepen the understanding of the financial inclusion landscape.

Nowadays it is considered that insurance and in particular microinsurance is assisting in the achievement of the Sustainable Development Goals (see appendix A).

2.5 WHAT IS FINANCIAL INCLUSION?

Financial inclusion is the set of mechanisms put in place to fight banking, financial and insurance exclusion. It includes a range of **financial and non-financial products and services** that are made accessible to underserved or unserved populations, rather than targeting exclusively the poor and low-income people in a narrow sense[2]. See appendix D for more information.

2.6 WHAT IS NOT MICROINSURANCE

The term "micro" can lead to shortcuts.

The first of these shortcuts is to believe that any conventional insurance product would be 'microinsurance'' because the premiums would be low, "micro premiums for a microinsurance." Common

[2] ADA Microfinance Luxembourg

examples are travel insurance or liability insurance for electronic scooters; those products are not designed to protect financially vulnerable populations more effectively.

A second shortcut would be to assert that a product would fall under inclusive insurance and meet the needs of financially vulnerable populations on the pretext that it would be simple to propose a conventional product, including one or two guarantees, applying a proportionality rule ('lower premiums' => lower sums insured). In this case, inclusive insurance products would only be a version of existing products on the conventional markets, a low-cost insurance. Such products do exist, but they are by no means a guarantee of success or a factor of confidence for populations who are particularly distrustful of insurers. An example is the conventional health insurance 'downsized' in price and disappearing after a few years, creating a new reputational risk. It is noted that rebuilding trust is a long-term endeavour.

In Appendix B, a comparison of conventional versus microinsurance.

2.8 CONCLUSION

In the face of such diversity, defining microinsurance, or what is now called 'inclusive insurance,' becomes nearly "mission impossible" and needs caution. It would be better to focus not on words, but on innovative approaches, allowing us to go back to the roots of insurance and rediscover its meaning.

Today, inclusive/microinsurance is a way for the industry to get back to its roots and become relevant again for the majority of the world's workers and their families. Regulators have a unique and key role in providing a sound and enabling regulatory framework for the promotion and development of inclusive/microinsurance.

Section 3: Regulatory Frameworks

3.1 WHY DOES MICROINSURANCE NEED A FRAMEWORK?

Microinsurance needs a framework for sound and sustainable development, which:

- Defines what is microinsurance or inclusive insurance (qualitative, quantitative, socio-economic, etc.) and delineates it from other insurance lines of business,
- Promotes and develops microinsurance and encourages innovation (promotion and development mandate given by ICP1 to the insurance supervisor),
- Protects financially vulnerable consumers.

Insurance supervisors[3] are in the "driver's seat" to promote and develop insurance and microinsurance.

Market innovations, such as digital payments (mobile money wallets, point of sales payments, use of airtime[4]), remote onboarding and servicing, cross-sector partnerships (e.g., micro-financial institutions, mobile network operators, mutuals and cooperatives) and license categories outside the circle of traditional insurers, brokers and agents circle, will force broader government coordination structures to address market constraints affecting the microinsurance market. For example, structural constraints relating to infrastructure, network connectivity, data costs or the use of airtime are outside of the control of the insurance supervisor. They may require that a Memorandum of Understanding be set up among different regulatory authorities, as well as the set-up of a cross-regulatory forum for long-term effective coordination establishing a supportive business environment and ensuring financially vulnerable consumers are protected.

3.2 PROPORTIONATE REGULATORY FRAMEWORKS

The Insurance Core Principles apply to Micro/Inclusive Insurance through the evolving concept of 'proportionality' in inclusive insurance regulations. Proportionate application of the ICPs means that supervisory measures should be appropriate to attain the supervisory objectives of a jurisdiction and the desired outcome of the ICPs and should not go beyond what is necessary to achieve those objectives. The ICPs, therefore, provide the flexibility to tailor supervisory requirements and actions so that they are commensurate with the nature, scale and complexity of risks posed by individual insurers to the insurance sector or to the financial system as a whole. This approach should assist in promoting financial inclusion and market development objectives. Microinsurance regulatory frameworks today are generally founded on this concept, even though they may not explicitly mention 'proportionality.'

3.3 MICROINSURANCE RISK TAKERS

Microinsurance operations can be provided by either insurers dedicated to microinsurance operations, called microinsurers, or by "conventional" insurers. The first approach is called the institutional approach and the second is the functional approach. The institutional approach allows for usually restricted lines of business (mostly short-term insurance) and prescribes lower capital requirements and technical requirements (proportionality principle). The functional approach considers microinsurance as a new line of business. Most insurance regulators select the functional approach (Brazil, India, Peru, Mexico, Taiwan,

[3] Terminology provided by the IAIS and refers to 'supervising' and 'regulating.'
[4] In Ghana, airtime for premium payment has been allowed thanks to the effective coordination between the National Insurance Commission and the National Bank of Ghana; in Nigeria and the CIMA zone, this has been prohibited by the respective regulatory authorities.

China, Philippines, Ghana, Kenya, Sudan, Uganda and 14 CIMA countries). Some of them allow for both approaches (Philippines, Cambodia, Brazil, and 14 CIMA countries).

3.4 REGULATORY INNOVATIONS

Many countries have implemented a microinsurance regulatory framework (in appendix E, a comparison of a few existing microinsurance regulations). While the implementation of a microinsurance license is acknowledged as a proactive step to encourage inclusive insurance innovation, microinsurance is not taking off in sub-Saharan African countries. This is noted as a particular challenge in both the CIMA region and Nigeria, for example. Focusing market development efforts largely on microinsurance frameworks and applying the 'articles as written in the book' also risks microinsurance regulations becoming unfit for the need of the population (becoming a white elephant) if it is not integrated with a broad and multi-sector approach to support market development through innovation.

Microinsurance frameworks are often complemented with innovative regulations, such as regulatory sandboxes, mobile insurance, index-based insurance (IBI) and takaful regulations.

3.4.1 REGULATORY SANDBOX

The regulatory sandbox provides a controlled environment for live testing of new products (appendix F – what it is), technology or business models under the watchful eye of the insurance supervisor whose mission is protecting vulnerable consumers. It allows the insurance supervisor to carefully monitor the opportunities and risks associated with innovations, while allowing companies to bring innovations to market quickly and with less risk. The sandbox should become an environment for forward-looking supervisors, generating enthusiasm for modernizing financial sector oversight to keep pace with technological innovations.

Kenya, Rwanda, and Uganda have regulatory sandboxes (appendix G) that have met with little success so far. Requirements are excessive or confusing, or staffing needs were higher than anticipated. Nigeria and Ghana are in the process of setting up similar environments.

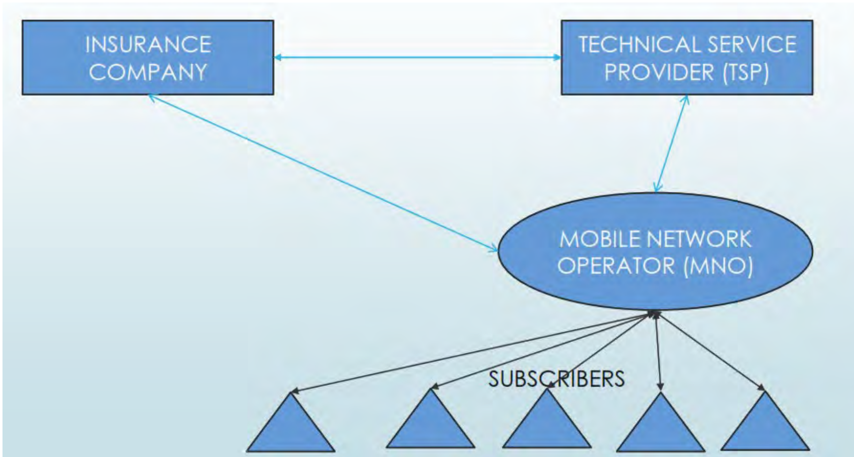
Irrespective of the challenges encountered, there is an increasing trend among insurance regulators and other regulatory bodies to implement a regulatory sandbox to allow the piloting of innovative ventures under certain conditions. They remain a useful tool and a test-and-learn opportunity for regulators and the industry.

3.4.2 MOBILE INSURANCE

Mobile insurance (m-insurance) regulations (or electronic insurance regulations) are crucial to address the digital inclusive insurance distribution. M-insurance refers to any insurance that is sold or subscribed to through a mobile phone and/or in partnership with a mobile network operator (MNO).

The m-insurance model allows the insurance industry to reach out to consumers residing in the rural areas deserted by the conventional insurers, brokers and agents. Mobile phone technology can be used for remote onboarding, policy servicing, premium collection and claim payments. Alternative distribution partnerships are set up, usually triparty relationships between insurer, PST or InsurTech and MNOs.

Figure 1
M-INSURANCE BUSINESS MODEL



Source: a2ii-IAIS consultation call – November 2015

There are three models which, in chronological order of utilization, are as follows:

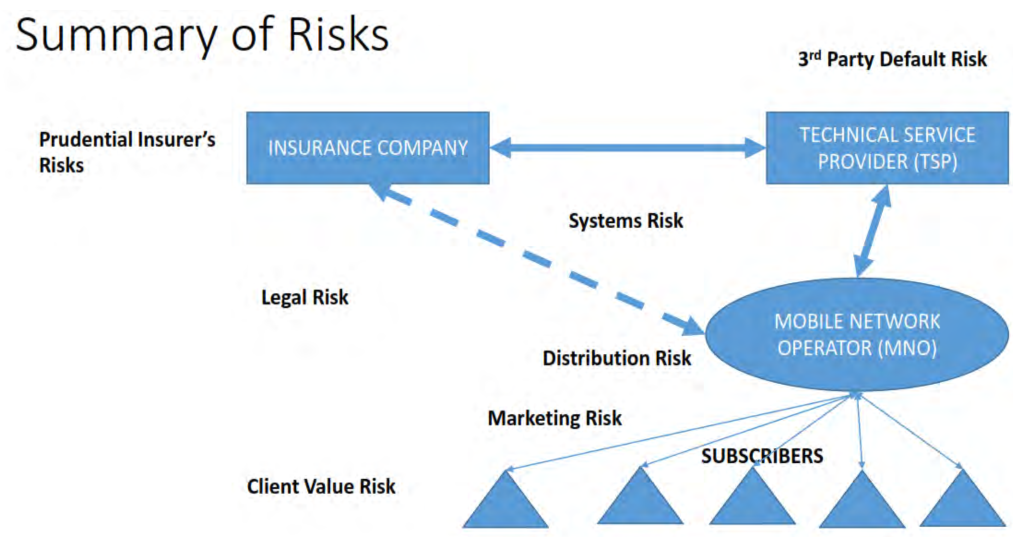
i. The Loyalty model: The insurance is provided at no cost to the policyholder by the MNO, who pays the premium in bulk to the insurer. This model is the first step in a market where customers lack financial education and trust in insurers.

ii. The freemium or hybrid model: The insurance is provided at no cost to the policyholder and is 'topped-up' (this means the free coverage is increased) by the policyholder using his money wallet or airtime deduction. This model is the second step in m-insurance and is an upgrade of the Loyalty model. This model may move gradually to the paid model, dropping the free part when the customers are 'mature' enough to make insurance-related decisions.

iii. The paid model: The insurance is bought on a voluntary basis by the policyholder through the mobile phone and paid for using the money wallet or airtime deduction or via over the counter payments.

The m-insurance model faces many risks as shown in the next illustration.

Figure 2
SUMMARY OF RISKS IN M-INSURANCE BUSINESS MODEL



Source: a2ii-IAIS consultation call – November 2015

The multitude of risks oblige the insurance regulator to issue regulations while balancing the appropriateness of the protection of consumers. This is a showcase for multi-sector coordination between the insurance regulator, MNO regulator, data protection regulator and the Central Bank.

3.4.3 INDEX-BASED INSURANCE

An index-based insurance contract is an insurance contract where a claim is defined with reference to a pre-defined index. Index-based insurance can also be referred to as "parametric insurance" as the index trigger can sometimes be thought of as a "parameter." These terms can be used in the sector somewhat interchangeably.

Index-based insurance regulations are indispensable when developing insurance to meet the needs of smallholder farmers in order to assure food security for their families and economical income proceeds while facing increasing climate risks. Index-based insurance can be macro (governments protecting their citizens), meso (e.g., financial institutions protecting their assets) or micro (smallholder farmers protecting their crops). If they are microinsurance products, then the microinsurance regulations apply as well. India is the pioneer in this domain. In Africa, Uganda and the 14 CIMA countries have dedicated regulations for IBI from 2020 and 2015, respectively. They are in the pipeline in the Democratic Republic of Congo and Ethiopia. Mozambique allows for pilot projects testing IBI insurance in anticipation of a regulatory environment. Kenya allows for pilot projects and has a draft bill on IBI awaiting promulgation.

3.4.4 (MICRO)TAKAFUL

Takaful and micro-takaful provide insurance for persons who, for religious reasons, cannot be underwritten for conventional insurance and, therefore, are excluded from mainstream insurance.

It is the Islamic counterpart of conventional insurance and it exists in both life (called: family takaful) and general forms (called: general takaful). It is based on the concept of mutual solidarity, and a typical Takaful undertaking will consist of a two-tier structure that is a hybrid of a mutual and commercial form of insurance. This, in itself, poses significant issues for regulation and supervision. In addition, all the functions of a Takaful undertaking should conform fully to Islamic law (Sharia), and this has implications in other areas of regulation and supervision[5].

Takaful is a joint-guarantee initiative, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks, under the core principles of Tabarru' (donation), TaÑāwun (mutual assistance) and Prohibition of Ribā (usury). Algeria[6], Egypt, Morocco[7], Nigeria, Sudan, Tunisia[8]and the 14 CIMA[9] countries have Takaful regulations in place.

Guidance is provided by the Islamic Financial Services Board (IFSB), in compliance with the ICPs from the IAIS, taking Islamic religious law into account.

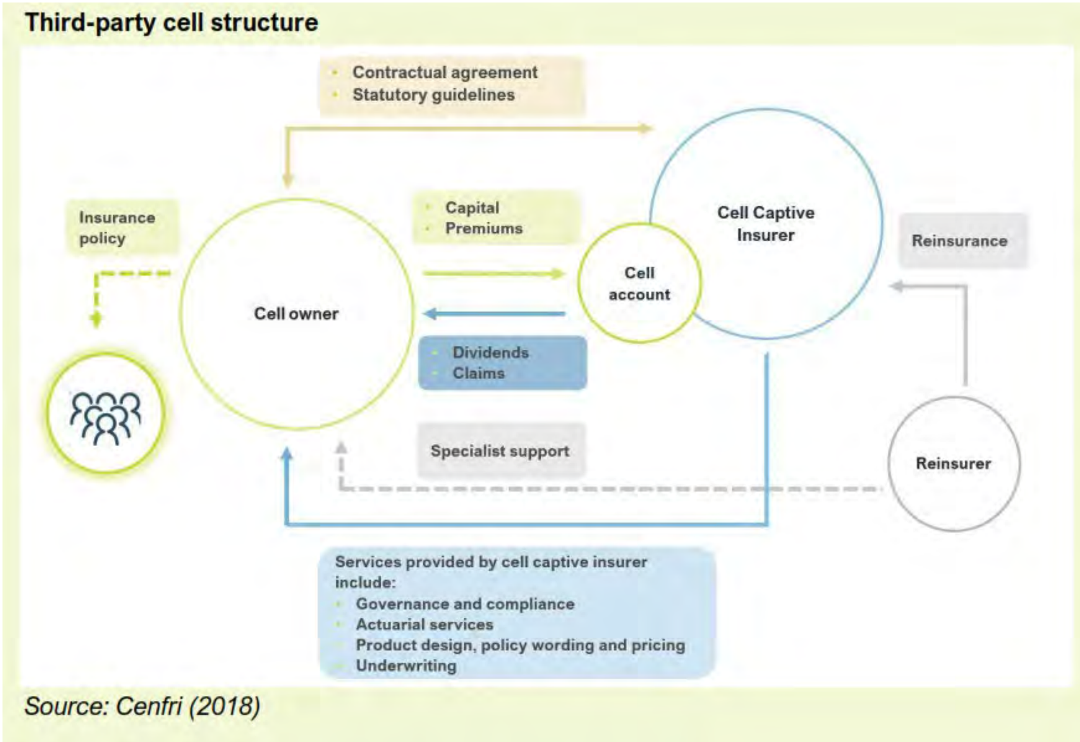
3.4.5 CELL CAPTIVE INSURANCE

A cell captive insurance vehicle may be a convenient method for providing insurance-related services to the lower income market. It may also be a stepping stone for new entities wishing to enter the insurance market with the eventual goal of becoming a fully-fledged insurer.

A cell captive is an insurance vehicle created by an insurance company (the "cell captive insurer") whereby its insurance license is extended for use by another organization (the "cell owner") for the insurance of the organization's own assets ("first-party cell") or the assets and/or lives of its customers or members ("third-party cell"). Depending on the statutory or contractual conditions in place, the cell owner can draw dividends on the proceeds of the cell, obtain underwriting abilities from the cell captive insurer and benefit from other insurance-related support functions. The cell captive insurer is accountable for all regulatory compliance and holds the insurance license that covers the business of all the cells.

[5] Issues paper on regulation and supervision of Takaful – August 2006
[6] 2021-2022
[7] 2022
[8] Introduced after the Arab spring revolution in 2011.
[9] 2019

Figure 3
THIRD-PARTY CELL STRUCTURE



There are many advantages to cell captive vehicles for the cell owner: the cell owner needs less capital and benefits from the compliance and business support and reputation of the cell captive insurer, while remaining in control of the insurance value chain, sharing in the economic benefits of the cell captive insurer and offering an incubation path to full license ownership.

Cell captives exist in some Sub-Saharan African countries (such as South Africa, Mauritius and Namibia) where they function under common law framework. Given the absence of precise regulations for cell captives in various developing markets, there is regulatory risk for cell captive participants.

Section 4: Microinsurance Trends in Africa

4.1 INTRODUCTION

The African continent is home to a significant population of low-income individuals[10]. Due to this, there is a large market for micro-financial offerings, including microinsurance. Initially, microinsurance in Africa was introduced as a form of charity through global financial aid programs from international organizations. However, over time, other market players have also begun to offer affordable insurance policies to specific segments of the population, including private insurers, mutual insurance companies and funds, micro-financial institutions, non-governmental organizations, governments or semi-public bodies, and more.

The emergence of microinsurance in the African market is due to two main factors. First is the success of micro-financial practices in Africa, coupled with a relatively low level of competition compared to the traditional insurance market. Second, there is a significant insurance gap that requires tailored products to address specific types of risks that are not covered by traditional insurance offerings and having no social security benefits. As a result, major microinsurance programs in Africa have focused on credit life, funeral and life insurance, health insurance, crop and livestock insurance.

4.2 DEFINITION OF MICROINSURANCE PRODUCTS

For the sake of clarity and a better understanding of this chapter, below is a list of the products (with short definitions) sold in Africa[11]:

a) **Accident Insurance (commonly referred to as 'Personal Accident'):** Insurance that provides compensation for injury, disability, or death caused by an event that is unforeseen, unexpected, and unintended.

b) **Credit Life Insurance:** Insurance coverage designed to extinguish the outstanding indebtedness of a borrower who dies while indebted.

c) **Crop Insurance:** An index-based insurance product that insures farmers against the loss of their crop due to natural events such as drought, flooding, hail, and other natural disasters.

d) **Livestock Insurance:** Livestock insurance is an index-based product that is designed to protect against prolonged forage scarcity. This insurance triggers payments to pastoralists to help maintain their livestock in the face of a severe food shortage.

e) **Funeral Insurance:** An insurance product designed to cover the costs associated with the policyholder's funeral.

f) **Hospital Cash Insurance:** Insurance that provides a pre-defined payment to a policyholder who is hospitalized, without regard to the actual cost of hospitalization.

g) **Health Insurance:** Coverage that provides benefits because of sickness or injury. Usually, ceilings for claim payments exist in the policy.

[10] Microinsurance network Landscape report 2018
[11] Microinsurance Network Landscape Report 2021

h) **Property Insurance:** Provides financial protection against the loss of, or damage to, real and personal property caused by such perils as fire, theft, windstorm, hail, vandalism, etc.

In many cases, microinsurance products are **Bundled:** this means that a microinsurance product is either sold in combination with another insurance product or in combination with any other non-insurance products or services.

4.3 MARKET SIZE AND SEGMENT

MicroInsurance Network (MiN) is providing insights based on market studies in various countries of the African continent, depending upon the willingness of individual insurers to contribute to their surveys. The results should be interpreted with caution and rather seen as indicators of trends in the microinsurance markets.

The Microinsurance Network 2021 reports that, in the studied African countries (13 of 54 countries: Egypt, Ivory Coast, Kenya, Ghana, Nigeria, Morocco, Senegal, Rwanda, Tanzania, South Africa, Zambia, Uganda, and Zimbabwe), many customers were reached through a total of 18.7 million policies in 2020. It is estimated that between 17 million and 37 million individuals were covered by microinsurance in those countries[12].This translates into an estimated proportion of 4% to 9% of the targeted population being covered by a microinsurance product, which is a significant increase compared to the numbers reached in 2019, where between 9.1 and 29.6 million people were reached, representing between 2% and 7% of the low- and middle-income population in the countries studied that year[13]. This trend shows a consistent growth in microinsurance coverage over the years.

4.4 SCALE

On average, microinsurance products in Africa reached a median of 6,000 policyholder[14] and generated a median of USD $79,500 in premiums in 2020.[15] The types of products that were most likely to reach a large scale were climate and credit life insurance. Property insurance products, on the other hand, tended to only reach a small number of customers, with a median coverage of just 400 policyholders.

The most successful and widely utilized microinsurance products in Africa from trend analysis from 2014 to 2020 were credit life, funeral, and health. Other product lines, such as personal accident, have not seen the same level of success. The lower scale reached in Africa can be attributed to the region's economic and geographical challenges, as well as the fragmented nature of the insurance market. The insurance market in Africa is also highly competitive, with numerous insurers vying for customers.

4.5 PREMIUMS

In the MIN landscape reports from 2014 to 2020, health, credit life, life, and funeral products persistently remained highest in terms of premium. The median average premium per individual policyholder in Africa

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[12] The figure includes the coverage reported by 132 insurers who responded to the questionnaire. Why is the number of people reached given as a range? These figures are calculated based on the insurance providers' reporting of the number of people covered by each of their products. Since a given client may have more than one insurance product, the total number of people covered is presented as a range. The lower number is based on the total number of people covered by the largest product line, and the higher number is based on the total people covered by all products.

[13] Microinsurance network Landscape report 2021

[14] The term "policyholder" is used to refer to a person (natural or legal) who holds an insurance policy, and includes, where relevant, other beneficiaries and claimants with a legitimate interest in the policy (IAIS – ICPs November 2019)

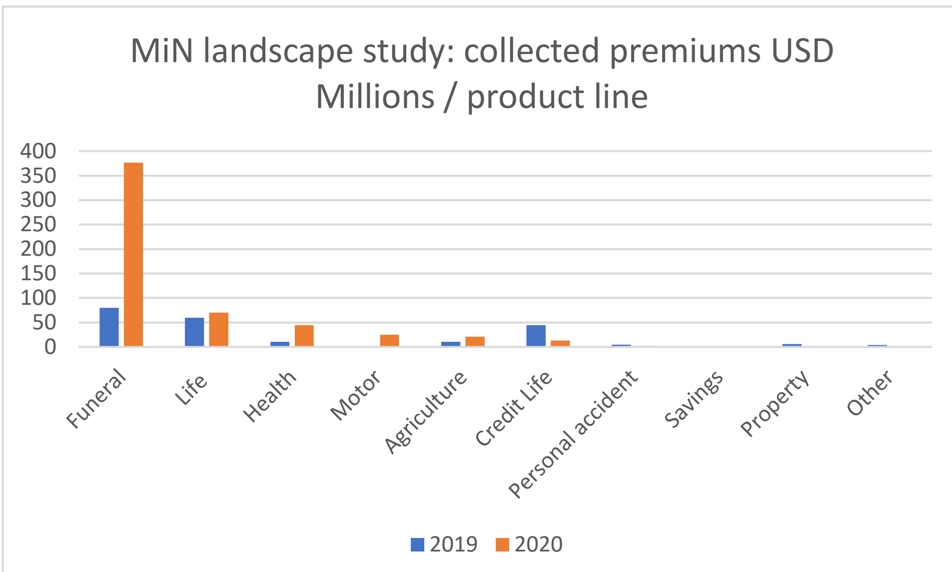
[15] Microinsurance network Landscape report 2021

stood at USD $11.60 in the year 2020, a decrease from USD $14.00 in 2019. It is important to note that there exists substantial variations among the different product lines, with property insurance exhibiting the highest median premium per policyholder and health products displaying the lowest median premium, reflecting a surge in low-cost hospital cash products and amounting to a mere USD $3.00 per policyholder. Such figures should be approached with prudence owing to the small sample sizes in most of the lines of business[16].

It is important to note that index-based agricultural and climate products are frequently supported by subsidies, which results in a lower premium cost for customers. Products that are commonly sold as group policies, such as credit life, may also often have lower premiums due to lower client acquisition costs, unlike products like property insurance, which are typically sold on an individual basis. Additionally, some products like health and life insurance often cover multiple family members. As a result, these products will have a lower cost per individual policyholder than the cost of a single policy.

Figure 4

PREMIUMS COLLECTED BY PRODUCT LINE IN AFRICAN COUNTRIES 2019/2020



Source: Recreated using data from the Microinsurance Landscape Reports 2020 and 2021 and published by the Microinsurance Network

4.6 PRODUCTS

An analysis of trend reveals that health, funeral, credit life and life products dominate the microinsurance markets in Africa as observed in 2014 to 2020 MiN reports.

The prevalence of credit life insurance in the region is due to the highly developed micro-credit market. Life insurance, often bought for funeral expenses, is particularly successful in Southern African countries such as Zambia, Namibia, South Africa, Malawi, and Zimbabwe, because of the cultural needs and the appropriate offerings from the microinsurance providers. The loss ratio of those products is often low,

[16] Microinsurance network Landscape report 2021

which also means that the customer's value is low, mainly due to a lack of awareness and financial education of the customers.

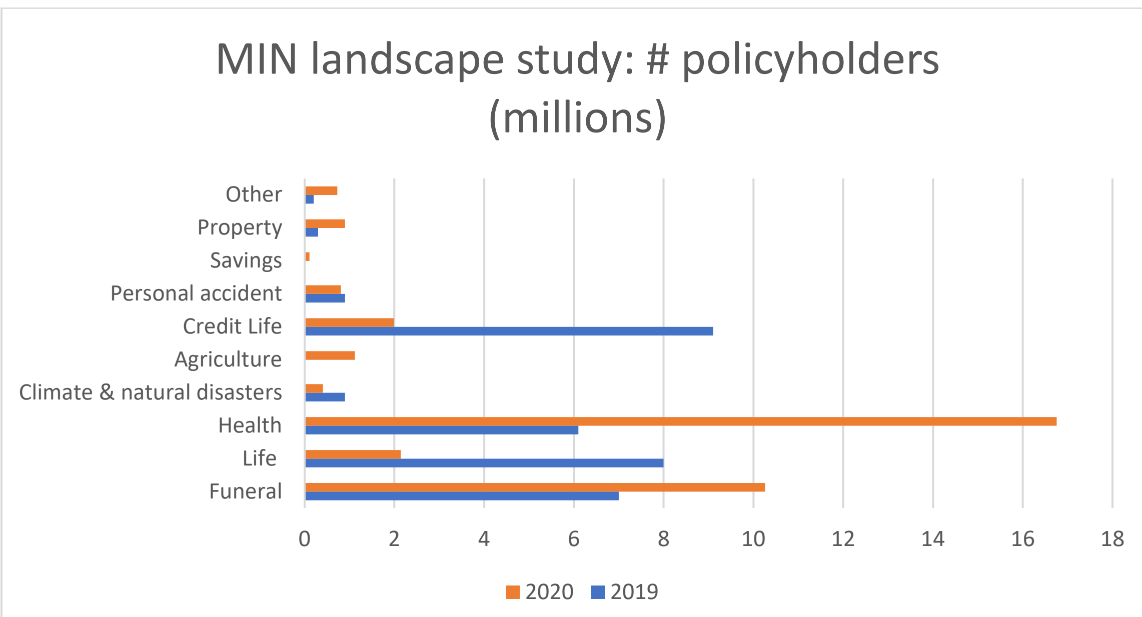
Health insurance is another growing microinsurance product that has been expanding in the African market in recent years and is provided through two main channels: either by supporting public coverage schemes (excluded from the survey) or by directly offering stand-alone health products, such as hospital cash and health value-added coverages (e.g., telemedicine) to people lacking social security benefits. A hospital cash product is a simple insurance product that offer a cash payout per night spent in the hospital. It has both value to customers and feasibility for insurance providers. This product has grown enormously both as a stand-alone product and frequently as part of a bundled product also offering life or accident coverage.

Index-based crop and livestock insurance schemes not only support the vulnerable population that requires micro-agricultural insurance, but also helps private insurers address the higher claims ratios and cost structures caused by distribution difficulties and climate challenges.

According to the Microinsurance Network 2021 report[17], while health insurance has reached the largest number of clients, it has not generated the highest premiums. This product line yielded a total of USD $44.2 million in premiums, followed by funeral insurance, which generated USD $376.9 million in premiums, and life insurance, which generated USD $70.2 million in premiums. This disparity in premiums can be attributed to the low-cost nature of these products, with the median premium per person covered for health insurance being a mere USD $3.

Figure 5

PEOPLE COVERED BY PRODUCT LINE IN AFRICAN COUNTRIES 2019/2020



Source: Recreated using data from the Microinsurance Landscape Report 2020 and 2021 for financial years 2019 and 2020

[17] Microinsurance Network Landscape Report 2021

The reach of credit life and life insurance in Africa has seen a significant decline. This cannot be explained based on the information available in the MiN reports. It is probably due to the portfolios of the insurers participating in the survey of MiN.

According to the Microinsurance Network, South Africa, Kenya, and Ghana are the three largest microinsurance markets in Africa, accounting for around 60% of the total market. Other countries with significant microinsurance markets include Nigeria, Tanzania, and Senegal.

4.7 DISTRIBUTIONS

Despite the burgeoning microinsurance market in Africa, there remains formidable obstacles that must be overcome. A paramount challenge is the paucity of awareness around the advantages of insurance among the financially vulnerable people. Many people and households in Africa are still uninformed about the benefits of insurance and, as a result, they may not seek out insurance products even if they have access to them. Furthermore, there is a lack of comprehension regarding the various types of insurance products that are available and how they can be utilized to safeguard against different risks. Agents were identified as a particularly important distribution channel, used as part of the distribution strategy for 68%, 69%, and 64%, respectively, of the products sold in 2017, 2019 and 2020. It should be emphasized that those agents work for a distribution channel or a technical services provider (InsurTech/FinTech).

The methods of distribution for microinsurance in Africa are highly dependent on partnership models[18]. Microinsurance providers in Africa diversify their distribution channels. Alternative channels, mainly economic aggregators, slowly enter the market. A considerable number of companies partner with micro-financial institutions to either directly sell the individual microinsurance policies or bundle them with other micro-financial products. In recent years, microinsurance has become an alluring segment for multiple insurance providers due to the high demand and overall potential long-term profitability of the products. Consequently, this has led more stakeholders to launch new microinsurance products, especially in English-speaking countries. The same pattern cannot be observed in non-English speaking countries where insurers remain reluctant to promote and develop microinsurance.

A resurgence has been observed in the utilization of mobile network operators (MNOs) for financial products, increasing from a dismal amount of premiums collected. In recent years, the freemium MNO-linked model, which was widely utilized across the African continent, has experienced a significant decline in popularity. However, a smaller number of MNO partnerships have gained traction, either through a shift away from the freemium model and towards an active sales approach or through joint ventures between insurers and MNOs[19].

Despite the growing pressure to adopt digital solutions, particularly in light of the ongoing pandemic, it has been determined that human interaction remains a crucial aspect of financial transactions within the African continent. Africa's microinsurance market has seen an influx of new InsurTechs offering entirely digital solutions. Nevertheless, these companies often partner with aggregators who maintain in-person contact with clients, highlighting the continued importance of these intermediaries in financial transactions[20].

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[18] Microinsurance Network Landscape Report 2021
[19] Microinsurance Network Landscape Report 2021
[20] Microinsurance Network Landscape Report 2021

Section 5: Pricing

Good and reliable data, strong actuarial tools, and knowledge of the regulatory, social, cultural and political climates in which the insurance product or service will be sold are all necessary for appropriate product pricing. Products for microinsurance are particularly susceptible to mispricing. This is frequently brought on by a lack of empirical data on the targeted populations, a lack of local actuarial experience in risk modeling in situations with sparse data, and a propensity to handle the pricing difficulty by using excessive factor loadings.

With several examples of microinsurance efforts failing because of insufficient capital and too much focus on short-term returns on the one hand, and issues with adverse selection and uncompetitive market positioning on the other, it is obvious that pricing needs risk management and actuarial services, though in a proportionate manner[21].

This chapter starts off by evaluating the pre-conditions of microinsurance pricing and actuarial consideration of pricing microinsurance products and assessing the Key Performance Indications (KPIs) in Microinsurance.

In fact, a whole book might be written on the topic of microinsurance pricing, so this is by no means a thorough discussion of the issue.

5.1. PRE-CONDITIONS OF PRICING IN MICROINSURANCE

Microinsurance product design presents some special challenges. Small premiums and benefits resulting from the client's scarce resources and severe cash flow restrictions, which limit the extent of underwriting, claims administration, and product complexity, provide certain difficulties. Scale, creativity, efficiency, simplicity, and careful risk management are all necessary to address these difficulties.

a) Missing Expertise: In developed countries with mature markets, actuaries are employed by conventional insurers to determine the financial impact of the risks for which policyholders are covered. More precisely, the actuary makes sure that these insurers maintain reasonable and sufficient premium rates, adequate reserves for potential liabilities, and equitable policy dividend payments to its policyholders.

   Similarly, a microinsurer should employ an actuarial professional with specific expertise in this particular underserved segment of the market. These experts will calculate the premium rates for the products and help with other aspects of running the microinsurance program. Many informal microinsurance providers initially misjudge the level of technical rigor needed to accurately price products. Without considering the underlying assumptions behind those rates, they frequently succumb to the temptation of copying goods and pricing from the conventional insurance sector or from other microinsurance programs.

   This specific expertise needs to be developed, and the supply of professionals may need to be expanded, or other mechanisms put in place to ensure capable professionals play a role where their skills are needed and not only in more conventional market segments.

[21] Assessing risk and proportionate actuarial services in inclusive insurance markets. IAA – November 2018

b) **Limited Data Availability:** In inclusive insurance[22] markets, risk pricing is practiced with substantial issues of data availability/accessibility. Appropriate data for the underserved or unserved population (regarding risks faced, key barriers to access, and how they manage their risks today) is a significant challenge.

Following are the main causes of limited data availability:

- In inclusive insurance markets, records keeping, and reporting standards are frequently subpar, which restricts the ability to analyze risk.
- The inclusive insurance market is still relatively new, and there are few historical records of risk. The internal experience data is usually related to the conventional insurance markets and, therefore, not appropriate for statistical analysis and premium computation of microinsurance products.

Therefore, it should be obvious from the outset that a well-designed and well-maintained database and management information system (MIS) for gathering and screening the future data needed is one of the essential factors affecting a microinsurance scheme's long-term viability. An MIS's major goal is to gather data and help manage the microinsurance product in a professional, effective, and technically sensible way. It is also to serve the pricing professional during the process.

5.2. ACTUARIAL CONSIDERATIONS

Any pricing exercise's principal goal is to arrive at rates that will fully cover all expenses and produce a fair return to all stakeholders[23] while providing value to the customer.

In the absence of permanent subsidies, even not-for-profit programs must produce a surplus to finance future growth and build up contingency reserves for unexpected claims fluctuations not covered by reinsurance. Microinsurance is not insurance business as usual. All along the value chain of microinsurance, innovation through partnerships with technical service providers and alternative distribution channels (mainly economic aggregators) is required to overcome the constraint of dealing with a relatively unknown and inaccessible market. Buying behavior needs to be mapped and understood to overcome the lack of understanding of insurance among the low-income population.

Microinsurance pricing in Africa is currently a complex and dynamic issue. The cost of microinsurance products in Africa varies greatly depending on factors such as the type of coverage, the target market, and the distribution channels used.

Large data sets and statistical information are needed for standard actuarial approaches to pricing insurance risk; these can include assumptions on interest rates, mortality rates, or the frequency and severity distribution of losses. Standard actuarial procedures must be used cautiously in microinsurance in the absence of comprehensive and trustworthy data.

[22] The term ‘microinsurance’ evolved to ‘inclusive insurance.’
[23] Peter Wrede and Caroline Phily, A Technical Guide for Pricing microinsurance - Impact Insurance & International Labour Organization

Microinsurance risks must be understood and managed when it is assumed. There is no "one size fits all" solution[24]. From one territory to the next, customer needs and financial capacities, preferences, suitable distribution methods, and legal requirements all differ greatly.

A thorough understanding of the local environment is necessary to build successful microinsurance products.

As most microinsurance contracts sold in the market so far are one-year term (or even shorter), the period during which premium and claims transactions will occur is short. As such, the time value of money is often ignored to simplify calculations and provide a small additional margin to compensate for pricing uncertainties. A second reason that investment income may be ignored is because the reserves for short-term products are not suitable for high yield investment since they have to remain fairly liquid. Given the current low interest environment, these two factors minimize the importance of interest rate considerations in pricing many microinsurance products.

As interest income is usually minimal, setting the premium rates correctly is paramount because it is usually not possible to revise them until renewal nor is it very prudent from a marketing perspective to increase rates shortly after launching a new product. Even if the insurer realizes the premium is insufficient after a few weeks, insurance regulations in most countries prevent rate increases for existing insurance in force. Premium rates can only be revised once an insurance policy term ends and it is up for renewal. This poses a serious risk (not only in microinsurance) for longer duration products and is one of the main reasons why short-term insurance durations are still predominant in microinsurance. The nascent interest in micro-pensions, for example, is so far mostly focused on the asset accumulation aspect and not on multi-year payout annuities.

Traditional pricing models for insurance products may not be suitable for low-income populations and may need to be adapted to consider factors such as the risk profile of the target market and the willingness and ability to pay of the policyholder.

An important aspect to consider when pricing microinsurance products is the costs associated with distribution and administration. These costs can be high in low-income populations due to factors such as limited access to technology, lack of infrastructure and low levels of financial literacy. To make microinsurance products more affordable and accessible to low-income populations, it is important to consider innovative distribution methods, such as mobile platforms and partnerships with community-based organizations. Though what is most important to make the program sustainable, irrespective of the innovation is the number of clients: microinsurance programs do not need a few thousand clients but many hundreds of thousands of clients.

Pricing is a cyclical process, including a short-term cycle to define a first level of premium, and a longer cycle of pricing review through continuous monitoring[25]. Different products may have different specifics, but the same process applies to all products. Both product features and processes will impact pricing in microinsurance. The overall objective is to derive a premium (commonly referred to as the gross premium) that will be charged periodically to the microinsurance customer. There are several methods for pricing. As microinsurance is often a starting business, the main method is exposure pricing, where assumptions must be made for claim frequency and expected claim amount. These are usually the two most relevant

[24] Peter Wrede and Caroline Phily, A Technical Guide for Pricing microinsurance - Impact Insurance & International Labour Organization
[25] Peter Wrede and Caroline Phily, A Technical Guide for Pricing microinsurance - Impact Insurance

parameters, and skillfully making appropriate assumptions for them and using them correctly is at the core of the pricing specialist's expertise.

Pricing microinsurance products must ensure the following questions are addressed.

- What are the needs and financial capacity of the targeted community?
- Who qualifies for microinsurance?
- Is the premium affordable?
- What are the choices for paying the premium and the terms of the coverage?
- What are the value propositions?

There are three main methods to arrive at the risk premium[26].

a) *Experience Pricing*

b) *Exposure Pricing*

c) *Credibility Pricing*[27]

5.3. PRICING PARAMETERS

a) **Data Accessibility:** Actuaries determine premium rates based on the experience data that is readily available. Despite the constantly expanding interest in microinsurance, there are very few or no microinsurance providers in most non-OECD countries. As a result, there is less industry experience in microinsurance pricing.

Due to a lack of insurance market development in some countries, even mainstream insurance data is not always available[28]. This further reduces the possibility of utilizing comparable products as a pricing comparison. Aside from the dearth of information available in these nations, microinsurance providers rarely have access to advice from reinsurers who, until recently, had no interest in fostering growth and reinsuring microinsurance markets.

When setting prices in these circumstances, the actuary must use both creativity and caution. After products are released, robust databases should be created right away, and insurance performance should be tracked against the starting prices. It is imperative to note that the size of the portfolio for the few programs that might have claim experience is frequently too small for conclusive findings. Furthermore, a lack of management information systems frequently makes it difficult for programs to acquire high-quality data.

Many programs still use outdated technologies (legacy systems) or manual data collection methods to gather information about microinsurance. There may be national statistics available, but it is frequently inaccurate. Inaccurate weather reports, insufficient property records, and biased national census data are also challenges. In most nations, population mortality rates provided by the World

[26] Peter Wrede and Caroline Phily, A Technical Guide for Pricing microinsurance - Impact Insurance
[27] Peter Wrede and Caroline Phily, A Technical Guide for Pricing microinsurance - Impact Insurance
[28] Biener, C., and M. Eling, 2011, Insurability in Microinsurance Markets: An Analysis of Problems and Potential Solutions, Working Paper.

Health Organization serve as a decent place to start. The knowledge from neighboring nations can occasionally be applied and modified. In general, it is preferable to use straightforward pricing calculations rather than create intricate mathematical models with fictitious characteristics when the quality of the data is poor. These models are not a replacement for high-quality data.

b) **Client Centricity:** Customer needs are the starting point of any microinsurance product. Understand the community/target market and assess the risks. Launching any product for an unserved or underserved community assumes extensive data gathering through interviews led during the 'community' study.

To secure acceptance of insurance as a risk-management tool, the customer perspective must be at the center of microinsurance activities even more than in other markets. To create demand, products must be created to meet customer requirements for risks to be covered, premium affordability and timing, straightforward claim procedures, minimum underwriting, and client-accessibility-enhancing processes.

The impact of management actions on microinsurance consumers should always come first. This fundamental principle governs the premium level, monitoring, and evaluation of products. Additionally, insurers must constantly be mindful of reputational risk, while providing services to the low-income market because it is challenging to regain credibility if the market loses faith or perceives any type of exploitation.

c) **Product Affordability:** Reaching the low-income market means designing accessible products since financial accessibility is the key to unlocking demand[29].

Given the severe financial constraints and low purchasing power experienced by low-income households, it makes sense that microinsurance premiums would need to be low, especially in the absence of any subsidies. Premiums and benefits are based on the 'willingness to pay' of the future client(s). Product offerings that are more expensive than what the client is willing to pay (WTP) and, ultimately, will have available to pay (Availability to Pay – ATP) are unsuccessful from the outset.

On the other side, compared to traditional business, insurance may have greater development and delivery expenses per unit. The expense of establishing an efficient distribution network is impacted by the fact that a large portion of the market is rural, outlying, and without access to bank accounts. One of the essential needs to overcome this difficulty is efficiency. Actuaries have a history of being extremely cautious when there is little access to data. The premium level and client value must be extremely alluring for low-income markets, even if it is crucial to set fair pricing for the providers. Actuaries need to lower their conservative attitude towards pricing[30]. In addition, when designing a product for the poor, one must also take into account that income may change from one year to another. A product that is affordable one year may not be affordable the following year[31].

5.4. MICROINSURANCE KEY PERFORMANCE INDICATIONS (KPIS)

The microinsurance market must be operated and managed professionally due to its nature. However, management objectives cannot be met without ongoing oversight and open performance evaluations.

[29] Peter Wrede and Caroline Phily, A Technical Guide for Pricing microinsurance - Impact Insurance & International Labour Organization
[30] Peter Wrede and Caroline Phily, A Technical Guide for Pricing microinsurance - Impact Insurance & International Labour Organization
[31] Wipf, J., and D. Garand, 2006, Pricing microinsurance products, in C. Churchill, ed., Protecting the Poor: A Microinsurance Compendium (Geneva: International Labour Organization)

Management and other key stakeholders can employ a pertinent set of metrics and industry acknowledged standard values as a reference point, thereby enabling them to guarantee the financial stability of the organization and maintain a consistent upward trajectory of performance[32].

The indicators established are applicable to all microinsurance providers, irrespective of their organizational set-up, environment, legal structure, or type of microinsurance product offered, even though there may be variations in their implementation and interpretation. This section is organized in the following way: **Key indicators, Interpretation** (highlighting specific considerations in evaluating performance for the partner-agent model, and specific products), and **Social Performance Framework**.

5.4.1 KEY PERFORMANCE INDICATORS

There are ten key indicators[33] that primarily focus on financial sustainability; however, they also have a social performance aspect when the primary goal is not solely financial viability, but rather providing efficient microinsurance products to financially vulnerable persons.

Figure 6
10 KEY PERFORMANCE INDICATORS

S/N	Indicator	Definition	Key Questions	How To Calculate It
1	Incurred Expense Ratio	The incurred expense ratio indicator is defined as the incurred expenses in a period divided by the earned premium for the same period.	How efficient is the delivery of microinsurance?	Incurred Expense Ratio =Incurred Expenses / Earned Premium
2	Incurred Claims Ratio	The incurred claims ratio indicator is defined as the incurred claims in a period divided by the earned premium for the same period.	How valuable is microinsurance to the policyholder?	Incurred Claims Ratio = Incurred claims / Earned Premium
3	Net Income Ratio	The net income ratio indicator is defined as the net income for a period divided by earned premium in the same period.	Is the microinsurance product or program viable?	Net Income Ratio = Net Income / Earned Premium
4	Renewal Ratio	The renewal rate measures the proportion of policyholders who stay enrolled in the program after their coverage term expires out of those who are eligible to renew.	How satisfied is the policyholder? How well does the product meet the true need?	Renewal Rate = Number of Renewals / Number of Potential Renewals
5	Coverage Ratio	The coverage ratio is the proportion of the target population participating in the microinsurance program.	How well developed is insurance awareness?	Coverage Ratio = Number of Active Policyholders / Target Population

[32] Wipf, J., and D. Garand, 2006, Pricing Microinsurance Products, in C. Churchill, ed., Protecting the Poor: A Microinsurance Compendium. Munich Re Foundation/ILO, Geneva
[33] Performance Indicators For Microinsurance: A Handbook for Microinsurance Practitioners, p. 2

S/N	Indicator	Definition	Key Questions	How To Calculate It
6	**Growth Ratio**	The growth ratio is defined here as the rate of increase in the number of clients. The growth rate measures how fast the number of clients is increasing or decreasing.	How competitive is the product vis-à-vis other products or household risk management alternatives?	Growth Ratio = (Number of Policyholders n – Number of Policyholders n-1) / Number of Policyholders
7	**Promptness of Claims Settlement**	The promptness of claim settlements indicator is an analytical breakdown of service times taken to report and process a set of claims.	How responsive is the service? How well does the product fit the policyholder's needs?	
8	**Claims Rejection Ratio**	The claims rejection ratio is the proportion of claims that have been disqualified (rejected) for benefit payment, for whatever reason.	How well does the policyholder understand the product?	Claims Rejection Ratio = Number of Claims Rejected / Number of Claims in the Sample
9	**Solvency Ratio**	The solvency ratio is defined as the ratio of admitted assets to liabilities.	What is the insurer's ability to meet future obligations?	Solvency Ratio = Admitted Assets / Liabilities
10	**Liquidity Ratio**	The liquidity ratio is defined as the ratio of cash or cash equivalents to "short-term" liabilities of the program.	How readily can the insurer meet its short-term expense and claim obligations?	Liquidity ratio = Cash or Cash Equivalent /Short-term Payables

Source: Social Performance Indicators For Microinsurance. A Handbook For Microinsurance Practitioners, ADA March 2013

A2ii has provided guidance for adequate levels of KPIs. This is presented in the figure below.

Figure 7
ADEQUATE LEVELS FOR KPIS

Source: Ratios and cost structures in insurance supervision – a2ii-IAIS Consultation call – March 2018

5.4.2 INTERPRETATIONS

Microinsurance programs around the world are highly variable and differ with respect to products, modes of distribution, management capacity, and in numerous other ways. This diversity makes performance comparisons between programs difficult and sometimes artificial; therefore, a measure of caution should accompany every conclusion about relative performance.

Life Insurance

- Life microinsurance products include credit life, funeral and life insurance. These products provide payment in case of death and may include additional features.
- Life products are usually one year renewable.
- Credit life and funeral are most popular.
- Selling life microinsurance products can be more difficult than other products due to the intangible nature of the benefits, which can affect marketing indicators.
- Life insurance is often included in bundled products and should be analyzed in isolation.

Health Insurance Products

- Health microinsurance is easier to market compared to life insurance but is more difficult to manage.
- Exposure data is analyzed and monitored in order to rapidly detect any emerging anomalies or unfavorable trends in the experience.
- To achieve viability and wide participation requires high levels of satisfaction, which can only come through quality servicing at a reasonable price and persistent consumer awareness education. The results of this will be evident for the coverage ratio, renewal rate, and growth ratio indicators.

Other Insurance Products

- Products such as crop insurance, weather insurance, and asset protection require much larger risk pools with adequate reinsurance for long-term viability.
- These products normally cover events that can affect very large areas, resulting in a rash of claims within a short period.
- Such events often lead to lengthier claims settlement since an adjuster may be required to visit the site of every loss; but, with a good disaster claims settlement plan and the use of innovative tools, rapid settlement is possible.
- An unprepared organization will evaluate poorly on the promptness-of-claims-settlement indicator.

5.4.3 SOCIAL PERFORMANCE

The microinsurance industry's social performance framework concentrates on four main areas of concern. Each dimension is defined by a concept that represents a "standard of ethics" as well as specific directions that demonstrate how to implement the principles.

The social performance metrics reveal the degree to which the principle is applied to a particular product[34].

Figure 8

SOCIAL PERFORMANCE INDICATORS

	Dimension	Principle	Guidelines	Indicators
Product Specific	**Product Value**	The product provides the policyholder with appropriate and effective risk-coping mechanisms.	The policyholder's needs are assessed during the product development stage.	Incurred Claims Ratio*
			Policyholder feedback is monitored to enable regular improvements.	Renewal Ratio*
			Improvements are designed to add value for policyholders.	Promptness of Claims Ratio*
	Client Protection	The policyholders are treated fairly and respectfully.	The microinsurer must ensure transparency of all policyholder information.	Claims Rejection Ratio* Complaints Ratio
			The microinsurer must ensure fair and respectful treatment of policyholders.	
			The microinsurer must ensure privacy of policyholder data.	
			The microinsurer must ensure that mechanisms for complaint resolution exist.	

[34] Social Performance Indicators: For Microinsurance. A Handbook For Microinsurance Practitioners, 2013, P.11

	Dimension	Principle	Guidelines	Indicators
	Inclusion	The product aims to include the less privileged.	Physical, financial and educational obstacles are reduced.	Coverage Ratio*
			Exclusion criteria are reduced.	Percentage of policyholders below the poverty line.
			The socio-economic profile of policyholders is monitored.	Percentage of female policyholders.
				Percentage of policyholders above retirement age.
				Social Investment Ratio
	Dimension	Principle	Guidelines	Indicators
Institution Specific	Social Performance Management	The microinsurer's institutional system enables social performance management.	Social mission and goals are defined.	n/a
			The board, management and employees are committed to the social mission.	
			External and internal social audits are conducted.	
			Employees are treated responsibly.	
			Based on the Micro-financial Universal Standards for Social Performance Management.	

*** Part of the financial KPIs.**

Source: Social Performance Indicators For Microinsurance. A Handbook For Microinsurance Practitioners, ADA March 2013

Note that the dimension and indicators are not arranged in a hierarchical form and, even though they are treated independently for the sake of analysis, they are not, in fact, different characteristics. Indicators may be supplemented by product- or organization-specific indicators.

5.5. CONCLUSIONS

Following are the chapter's main takeaways:

- Designing microinsurance products requires balancing broad inclusion, affordable premiums for suitable benefits, and sustainability[35].
- Microinsurance product pricing is heavily influenced by a customer's "willingness to pay" and needs.
- Pricing microinsurance products is complex, using 'test and learn' approaches, and needs proportionate actuarial services.
- The pricing professionals must take everything into account, including target market, product design, marketing and communications, client administration, premium collection and claims service.
- Accurate pricing begins with a quality database. The database should be designed by an IT professional with input from the pricing professionals to ensure that the future data are relevant for pricing purposes.
- Data, like any other resource, must be carefully managed.
- Professionalism is key to the operation of the microinsurance market due to its nature.
- Microinsurance stakeholders use relevant key indicators and industry-accepted benchmark values (standards of performance) as a guide, helping them to ensure that microinsurance providers remain solvent and that performance continues to improve.
- There are ten key indicators that primarily focus on financial sustainability.
- The microinsurance industry's social performance framework concentrates on four main areas of concern, namely Product Value, Client Protection, Inclusion, and Social Performance management.

[35] Wipf, J., and D. Garand, 2006, Pricing microinsurance products, in C. Churchill, ed., Protecting the Poor: A Microinsurance Compendium (Geneva: International Labour Organization)

Section 6: Microinsurance and Technology

Globally, technological advancements are making a huge impact in the different business spaces, with financial inclusion as a priority for developing and emerging economies. The insurance sector is fully embedded in this evolution. The various levels of impact have become even more evident and necessary following the world's exit from the COVID-19 pandemic and recovery in both economic and general life activities. Consequently, there is a gradual transition of societies across the world, both in the most advanced communities and the remotest parts, to becoming heavily dependent on technology in nearly all daily activities.

The rise of technology and the mobile economy technology have been key enablers in making insurance accessible to the most financially vulnerable, unreached, unserved, and underserved populations across the African continent, making a difference in the lives of African people.

Africa has a low insurance penetration rate. However, there has been a significant improvement in coverage rate[36] year over year, particularly in low-income populations. A variety of factors contribute to low insurance coverage and penetration. This includes low purchasing power because of low levels of income in developing and emerging economies (low GDP per capita), a lack of awareness, distrust due to generally (very) slow payment of claims and mis-selling, and an inadequate understanding of how insurance works. Product suitability and inappropriate distribution models are two other critical issues that further impede insurance capacity.

The ability of stakeholders, such as regulators, insurers, agents, brokers, technical service providers and partners alike, to demystify those two critical issues is the key to making insurance appealing and accessible to all and this is where technology best fits. The use of technology at all levels of the insurance value chain and, more recently, as a distribution conduit may change the paradigm on insurance uptake. This brings to light the possibility of gradually reducing the longstanding challenge of low insurance coverage levels and, ultimately, the penetration rate, provided GDP/per capita increases. No matter how good an insurance product may be, people first need to cope with the basic living expenses before thinking about buying insurance.

Before getting into this chapter, it should be noted that there is a large technical and STEM skills gap in most African countries, which impedes the expected take-off. Those skills include underwriting and actuarial skills, but also non-financial STEM skills.

6.1. THE MOBILE ECOSYSTEM

The global mobile ecosystem is an area that has seen tremendous growth with technology in the last half decade in many African countries. The current pursuit and transition to digital economy by both developed and developing nations is underpinned by a robust, fast-paced and technologically advanced mobile economy facilitating global connectivity.

Over the last decade, we have seen the transformative power of mobile money in providing a pathway to financial inclusion, enabling an increasing number of people to have a mobile money account and, consequently, increasing the financial inclusion rate of the population tremendously.

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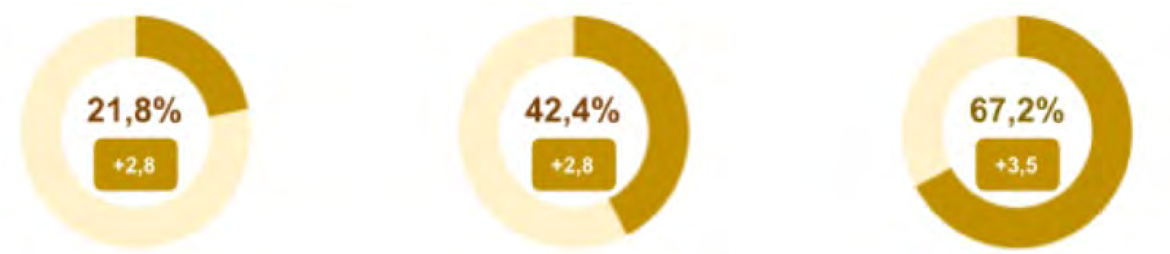
[36] Coverage rate = number of policyholders / total number of targeted persons

The figure below provides insights on how mobile money services have improved financial inclusion in the West African Economic and Monetary Union (WAEMU).

The three circles show you:

- Left: banking rate
- Middle: extended banking rate; this includes the percentage of people with bank accounts in a traditional bank or a micro-financial institution
- Right: financial inclusion rate; this includes the percentage of people with an account in a traditional bank or a micro-financial institution or a mobile money account

Figure 9
FINANCIAL INCLUSION RATE IN WAEMU



Source: Rapport sur la situation de l'inclusion financière dans l'UEMOA au cours de l'année 2021 - Juillet 2022 - Banque Centrale des Etats de l'Afrique de l'Ouest (Report on the Situation of Financial Inclusion in the WAEMU during the year 2021-July 2022 – West Africa Central Bank)

The next figure shows how the financial inclusion rate has evolved in the WAEMU from 2011 to 2021:

Figure 10
EVOLUTION OF UTILIZATION OF GLOBAL FINANCIAL SERVICES IN WAEMU

Source: Rapport sur la situation de l'inclusion financière dans l'UEMOA au cours de l'année 2021 - Juillet 2022 - Banque Centrale des Etats de l'Afrique de l'Ouest (Report on the Situation of Financial Inclusion in the WAEMU during the year 2021-July 2022 – West Africa Central Bank)

The innovations introduced by several financial service providers using new technologies to enroll new customers, offering electronic money and the entry of new players, have strongly contributed to the improvement of the overall rate of use of financial services in WAEMU. Indeed, some institutions have entered into partnerships with e-money operators to operators, with a view to offering financial services relating to the opening of savings accounts and granting microcredits to the population. In 2021, the usage rate of e-money services was 59.4%, compared to 48.9% one year earlier.

It's obvious that mobile money has paved the road to more sophisticated financial services and products. The mobile money account enables gradual access to products that could build resilience, such as money transfers, savings on mobile money accounts (sometimes also credit), and, ultimately, insurance services. Approximately two in five mobile money providers in Africa offer money transfers, savings, credit or an insurance product.

Mobile money has definitely transformed the lives of millions of people globally. Registered mobile money accounts grew by 18% to 1.35 billion in 2021, with 518 million with accounts that were active on a 90-day basis, processing $1 trillion in transactions annually. In addition, the number of active agents grew from 534,000 in 2012 to 5.6 million in 2021, unlocking financial access for the most underserved customers. Registered mobile money accounts in Africa grew by 17% to 621 million, with 184 million active accounts processing $701.4 billion (39% growth)[37].

6.2. MOBILE ENABLED INSURANCE

In a growing highly competitive market, MNOs are looking for higher return on their investment and customer loyalty through the diversification of services and products using their technology and customer database.

Partnerships and joint ventures between insurance providers and MNOs are unlocking mobile-enabled insurance in Africa, especially English-speaking countries, offering the benefits of scale, mobile payment, geographical outreach, and demographic insights and, over time, use of big data to tailor insurance products and services for populations for which data is/was lacking[38].

Today, there are about 130 mobile-enabled insurance services in 28 countries, with more than half offering coverage for life and funeral or health and hospitalization. In 2020, an estimated 43 million policies were issued with two-thirds (29 million) being life and hospital insurance policies[39]. However, it should be emphasized that this process started up very slowly more than one decade ago involving high investments and many pioneers‘ efforts. Today, those markets are not yet “mature” microinsurance markets as there’s still a lot to be tested and learned. The African population was estimated at 1.4 billion people in 2022!

An example of a successful partnership among a MNO, an insurer, and a technical service provider in Ghana (having now also similar partnerships in the Ivory Coast, Benin, Cameroon, Zambia and Uganda): aYo, a South-African InsurTech, began as a joint venture between MTN[40]and MMH (Metropolitan Momentum Health) with a vision of providing a future where everyone uses insurance. The technical services provider, aYo Ghana, enrolled 15.4 million customers in five years by leveraging technology to provide relevant, accessible, and easy-to-use insurance. It offers simple funeral coverage and hospital cash

[37] GSMA State of the industry Report on Mobile Money 2022
[38] Traditional insurers’ data are limited to the formal sector; in life insurance, the mortality table reflects the market or insurer’s experience limited to clients from the formal sector usually.
[39] 2021 GSMA Global Adoption Survey
[40] www.mtn.com

insurance with premiums deducted from customer airtime and mobile money wallet. The insurance products are real-time, paperless, simple, transaction-driven and customers can easily access them via USSD or an app. Claims documents are submitted via WhatsApp and insurance benefits are paid directly into the claimant's mobile money wallet.

6.3. TECHNOLOGY AS AN ENABLER FOR MICROINSURANCE

There is still a low disaggregation of the insurance business process as insurers have legacy systems that do not easily integrate with third-party systems, such as those used by InsurTechs. Besides that, such an evolution also assumes that traditional insurers delegate part of the value chain processes. Innovation can only happen if those challenges are resolved through convincing microinsurance providers to explore B2B relationships with InsurTechs and FinTechs plugging into their legacy systems.

The prowess of technology in microinsurance can be traced throughout the business process with partnerships disaggregating the microinsurance value chain. For instance, a specialist third-party chatbot service provider can better support and facilitate B2C than a legacy system. It is, therefore, beneficial for the microinsurance industry to develop partnerships with FinTechs/InsurTechs to address key challenges in the microinsurance value chain.

In Kenya, Rwanda, Uganda, Ghana, Nigeria and Morocco, the regulator is setting up 'innovation labs'[41] where insurers and FinTechs/InsurTechs can test innovative partnerships.

[41] Also known under the name of BimaLabs

Figure 11

HOW TECHNOLOGY IS USED IN (INCLUSIVE) INSURANCE

Aspect	How technology is used
Product development	• Harnessing of big data, which enables client risk profile to be analysed and priced more accurately
Distribution	• Selling via digital interface rather than having to employ and train staff • Call centres support in replacement of the direct client relationship
Disclosure and documentation	• Presenting and disclosing information to the consumer on the mobile phone and internet platforms • E-documents (contracts, terms, claims documents) replacing printed documents
Customer acceptance	• Leveraging on e-money transaction platforms for client identification and verification • Policy activation via a call centre or hotline • Sending of renewal reminders via SMS to clients • Issuance of e-policies and using of e-signatures
Premium collection	• Airtime deduction as payment method • Transacting via e-money platforms
Claims settlement	• Transacting via e-money platforms • Pre-processing of claims
Other value-added services	• Back office administration e.g. managing client databases

Source: Proportionate regulatory frameworks in inclusive insurance: Lessons from a decade microinsurance regulations – a2ii – November 2016.

Because the margins on microinsurance are small (in absolute terms: premiums are low and loadings are proportionate to the low premiums), risktakers and technical services providers must be extremely efficient throughout the microinsurance value chain to offer affordable products while remaining sustainable and profitable. Technological advancements may enable microinsurance providers to quickly scale (not 1000 policyholders but a multiple of 100,000), reduce operational costs, lower claims costs, and improve the customer experience.

Technological innovations and partnerships with MNOs enable microinsurance providers to easily access the rural, unserved and unserved populations, ease sales and servicing engagement (use of call center, USSD menus and Interactive Voice Response (IVR), WhatsApp, etc.), which reduces distribution costs, improves the customer experience and trust, improves product understanding through the use of education videos, and eases claims declarations, verification and payment. The verification becomes possible by leveraging the MNO's cell site to confirm the policyholder's location at the time the insured event (hospital admission and death claims) occurred and the use of remote-sensing data to trigger automatic payments to smallholder farmers with weather index-based agricultural insurance.

Figure 12
CRITICAL SUCCESS FACTOR FOR A SUSTAINABLE INCLUSIVE INSURANCE BUSINESS

Source: aYo

Different emerging technologies enable microinsurance to function at various levels of the (micro)insurance value chain effectively and these technologies can be classified into:

- Product-supported technologies.
- Distribution-supported systems.
- Operations-supported technologies.

Product-Supported Technology

Product differentiation is key in the microinsurance space. Technology is a critical enabler to achieve this. Product-supported technologies, therefore, tend to target a specific group or segment of the insurance market. Examples of product-supported systems are m-health insurance (telemedicine), mobile microinsurance (e.g., real-time billing of premiums enables real-time coverage for every premium collected daily, which is called micro-billing), and on-demand insurance (e.g., MTPL insurance policy, which provides coverage only when you drive instead of buying a full year of coverage – an example for conventional insurance as MTPL is not a microinsurance product).

Over time, technology is helping to address (e.g., many exposure years as, for example, for weather index insurance, at least 25 years of historical data are necessary) both the lack of good quality data and the lack of technical expertise in the microinsurance space. This improves rating processes. Remote-sensing data can be employed to develop the index used in index-based insurance under certain circumstances, like when the insurance payout is dependent on the triggering of an objective index designed to align with the actual loss experience. More broadly, innovative ways to gather big data on low-income people are emerging. Tools like machine-learning, big data and data mining are taking off slowly but gradually to make underwriting more targeted and efficient, leveraging on the MNO’s database, etc.

Distribution-Supported Systems

Distribution is one of the most significant challenges in delivering high-quality insurance products to low-income people. How does technology assist insurers in reaching clients in large numbers, while still addressing the constraints of low margins, minimal financial infrastructure, and the many other challenges in distributing microinsurance? Innovative distribution channels addressing these constraints include the mobile network operators and agent-led insurance platforms.

For a long time, microinsurance has been dependent on agents and the Bancassurance distribution model through Micro-Financial Institutions (MFIs)[42]. Assuming increasing extended banking rates, their role in providing 'inclusive insurance' will surely increase over time. Moreover, more than the traditional insurers, they innovate through mobile banking (B2C) and emerging partnerships with MNOs (B2B) using mobile technology.

Technology allows microinsurance to reach the critical masses required to drive microinsurance and make it sustainable. Distribution-supported microinsurance systems include MNO USSD Channels, which is easy to use by both the educated and semi-illiterate consumers, e-commerce-embedded insurance, AI robo-advisor platforms, Telesales, smartphone applications, digital marketing, etc.

By facilitating access to large volumes of clients and data, mobile networks and devices have become a major point of sale. Furthermore, mobile health (m-health), for which telemedicine has become a valuable service with which to bundle insurance, and digital marketing channels, which facilitate client education and segmentation, have emerged as valuable services with which to bundle insurance. Some customer service functions are being automated using artificial intelligence and chat bots.

Robo-advisor AI technology is strategic in the inclusivity agenda of insurance. These are primarily chatbots and aggregator platforms that provide insurance advisory services to prospective consumers based on certain input parameters. Chatbots have surged in countries like Ghana and Nigeria in recent times, probably because of their ability to provide vertical insurance advisory by reaching huge numbers of insurance consumers at the same time. Conversely, aggregator platforms complement brokerage services even at microinsurance levels providing horizontal advisory across the industry.

Operations-Supported Technologies

Microinsurance operations-supported technologies refer to those systems assisting the core back-office business processes like underwriting, claims, policy administration and data management issues. This includes standard microinsurance administration systems, smart underwriting applications, standalone claim systems or machine learning (ML) models offered as Applications Programming Interface (APIs) plugged into legacy systems.

In microinsurance, it is important that claims are processed quickly and transparently. This allows insurers to reduce expenses and fraud, as well as instill trust in customers. Timely payouts also address the financial needs of the vulnerable customer at the time of financial shock. Technologies that address these issues include claims administrative systems, smartphone applications, remote-sensing, Internet of Things (IoT), blockchain, and machine-learning. Technologies can provide access to new data, which can then be analyzed to make insurance processes more efficient.

In servicing microinsurance customers, insurers incur high transaction costs from collecting frequent premiums from persons who may not have traditional bank accounts and paying out claims of lower value. However, mobile money and mobile airtime have been used as substitutes for banks to enable quick, convenient, and relatively low-cost payments of premiums and claims. New, transformative technologies

[42] OECD 2017, Technology and Innovation in the Insurance Sector

like blockchain and other online platforms (including e-commerce platforms and remittance applications) are also emerging within the space of microinsurance[43].

Social Networks

Social media has become an important information channel and a way for the business world to interact with consumers. The conventional insurance sector is no exception. The inclusive insurance sector follows using social media to create awareness or to provide basic financial education.

Financially literate consumers already use social media to find out about insurance products and services before purchase and, in fact, they seek to interact with companies directly when they have queries. They do this via Instagram, LinkedIn, Facebook and Twitter.

[43] SOA 2019, Technology In Microinsurance: How New Developments Affect the Work of Actuaries

Section 7: Project Management

Developing successful MI products is challenging given the various market constraints observed. Amongst those constraints are the limited knowledge of the conventional insurers of the untapped targeted segments, limited corporate drive for innovation and small innovation budgets with conventional insurers. Those realities explain why MI programs are mainly kicked off by aggregators such as the MFIs, MNOs or cooperatives, technical services providers, InsurTechs, often benefiting from financial and/or technical support from donors such as WorldBank, International Labour Organization, German Internationales Zusammenarbeit, International Fund for Agriculture Development, InsurResilience Fund, etc.

Of course, developing a microinsurance product, bringing it to market, and making sure that the product benefits clients and is managed efficiently is challenging, especially with innovators not necessarily belonging to the traditional insurance circle. Without further questions, if those actors do not follow an organized new product development process, they will spend more on fixing the problems that occur than they would have on product development because:

- They did not pilot test and failed to identify major issues before roll-out;
- Their marketing methods are found ineffective across their whole market, rather than being addressed while still at a small scale;
- Products do not address clients' needs and, as a result, there is little effective demand;
- They have not tracked product performance, which might have shown problems before they resulted in client dissatisfaction and ill will;
- Some components of their product may have been strong, but key weaknesses might have been overlooked, as there was no effective structure to assess the product;
- Poor partnerships were developed (due to a selection of inappropriate partners or poorly defined roles), leading to reputation problems for the initiator of the process.

A controlled product development process can save an institution from serious problems before issues arise, and it can help improve an institution's confidence in the potential success of a microinsurance product.

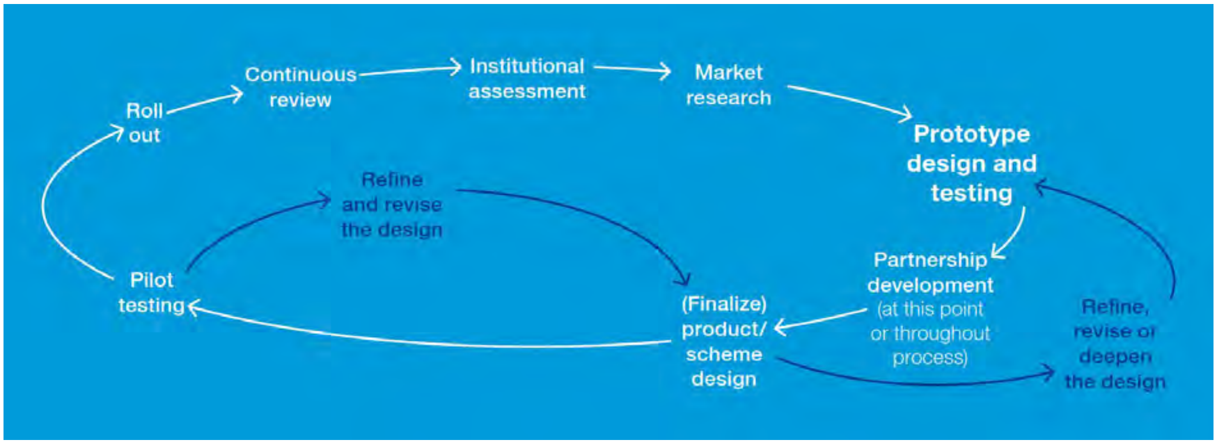
"*A systematic new product development process is crucial to the success of microinsurance products for many reasons, including:*

- *Saving money – by maximizing the potential for product success;*
- *Saving management and staff time – by ensuring, within reason, that the product has market demand, and by working out staff and systems issues early in the process, when it is easier and cheaper to make changes;*
- *Generating goodwill in one's market – by offering products that will not have to be withdrawn or substantially altered once they are offered throughout the market*"[44].

[44] Microinsurance product development for microfinance providers – Michael McCord

The illustration below shows the various phases in the MI product development cycle.

Figure 13
MI PRODUCT DEVELOPMENT CYCLE



Source: IFAD

Appendix H includes a plan with further details on the contents of some phases.

The MI product development cycle is time consuming and needs important innovative budgets and technical (underwriting and actuarial) and STEM skills as well. It starts and ends with the Board of Directors.

Section 8: The Role of Microinsurance in Advanced Economies

8.1 INSURANCE AND POVERTY

Insurance is primarily used to reduce household poverty. That is why it was created and that is why it has developed in modern economic history. Without insurance, families who suffer a tragic event would be thrown into poverty, unless they had sufficient assets to withstand those hazards. The landscape is set: in a poor country, an accident, disaster or illness will push a family from poverty to extreme poverty. In a rich country, the same causes explain the slide of the middle class into poverty. (François-Xavier Abouy, Directeur de Recherche de la Chaire 'transitions démographiques, transitions économiques').

8.2 DEFINING 'POOR'

Crucial is the interpretation of the adverb 'poor:' what is poverty and what is low income? It depends upon the thresholds defined by the 'country;' for example, in France, you are poor if you make between 800 and 1000 € per month; you are a low-income earner if your monthly salary is SMIC (Salaire minimale de croissance – Minimum growth salary - monthly).

The WorldBank defines the international global poverty line (used to measure extreme poverty): $2.15 (PPP 2017) for poor income countries, $3.2 (PPP 2017) for low-middle income countries and $6.85 (PPP 2017) for high middle-income countries. As per those poverty lines, the majority of the poorest people live in Sub-Saharan Africa and poverty increases substantially across all regions in the world at the highest poverty line of $6.85.

In the USA, poverty thresholds are defined in function of family size: $13,788 for one person (unrelated individual), $17,529 for two persons, etc (2021). Based on these thresholds, the official poverty rate in 2021 was 11.6%, with 37.9 million persons considered poor. Eight point three percent of the population had no health insurance plan (private 66%, public 35.7%) in 2021[45]. Using the initial definition of microinsurance, a market for microinsurance exists in the USA.

8.3 WHY MICROINSURANCE ALSO IN DEVELOPED ECONOMIES?

While all disasters are striking in their magnitude, the daily vulnerability of people insufficiently insured against personal, family, or professional risks remains invisible, silent, and outside the scope of the media and compassionate impulses. However, according to the World Bank, if natural disasters are the cause of poverty, these macroeconomic events are largely supplanted by individual causes: accidents, health, and family problems. However, this analysis needs to be tempered – without being invalidated – by the observation that the lasting impoverishment, that famines, wars, or pandemics, can bring about for the surviving populations.

The lack of protection by public authorities and private actors results in the irreversible shrinking of income in case of misfortune, as well as an increased effort to accomplish and repair the consequences of damage.

[45] US Census Bureau Data: www.census.gov

Any precautionary savings, credit or informal solidarity cannot compensate as much as insurance for economic losses in case of illness, accident, death of a family member, damage to property or third parties, etc.

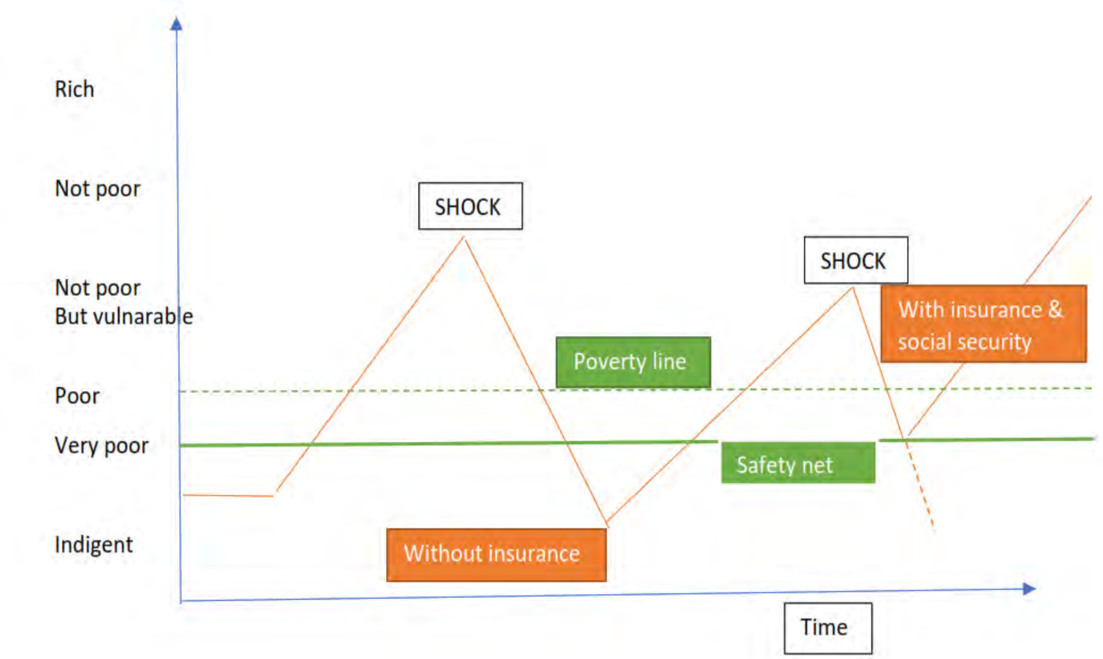
The fragility of life is, thus, accompanied by intense fluctuations in income depending on one's social condition and social networks.

In developing countries, the struggle to survive occurs daily for most people. In the absence of insurance and social protection for most of the active population, the slightest shock of medium intensity can lead to poverty or destitution.

In developed countries, social security is usually well developed to avoid this scenario. The recent pandemic of COVID-19 has revealed that the system has shortcomings. In the USA where a great number of people still don’t have any type of health insurance, the lacking cushion of ‘universal’ health insurance has taken a high toll amongst the population belonging to low social classes or excluded from society.

Irrespective of the economy and definitions provided by national governments for each social class (rich, not poor, not poor but vulnerable, poor, very poor), the following graph is applicable. No doubt microinsurance/inclusive insurance could change the outlook.

Figure 14
DAILY RISKS: WORLDWIDE SILENT VULNERABILITY: SCENARIOS



8.4 THE PILOT(S) FOR INCLUSIVE INSURANCE

The promotion and development of inclusive insurance lies in the hands of the insurance supervisor as they are in the driver’s seat regulating and supervising the industry. Most of the regulatory environments in developed countries comply with the Insurance Core Principles and, therefore, proportionality principles are an intrinsic part of the regulatory environment. Supervisors may tailor the requirements to the risks inherent to the insurers, and the risks posed by insurers to policyholders, the insurance sector, or the financial system.

Therefore, even without specific regulations, as is the case in Sub-Saharan countries, based on the proportionality principle, 'microinsurance' is, in theory, feasible.

Unfortunately, financial inclusion is not (yet) on the agenda of (all) governments, nor (all) insurers in developed countries. Insurance supervisors in some developed and emerging countries believe that (i) insurance is already 'inclusive' and (ii) microinsurance is for 'countries in the South.' Financial inclusion is also missing in education syllabi in the department of actuarial sciences or insurance with universities in developed countries. Few actuaries are aware of it and, if aware, still address this new 'thing' as conventional insurance.

In the Sub-Saharan countries, awareness building is necessary amongst the population at large. Similar awareness building might be necessary in both developed and emerging countries. COVID-19 provided an impetus to do so and, in every country, there is still untapped market potential.

8.5 CONSTRAINTS FOR DEVELOPING INCLUSIVE INSURANCE

There may be some constraints, comparable with those in the developing countries, to consider.

Structural constraints:

- Cost of mobile data may not be accessible for the targeted population,
- Low insurance awareness and lack of trust may exist amongst the targeted population groups.

Market constraints:

- Traditional insurance actors (insurers, brokers, agents, actuarial firms, …) may have limited knowledge of the retail target market; large-scale research is needed to better understand the underserved target market segments' realities and needs.
- Limited corporate drive for underserved target market segments: many insurers are complacent in their existing market segments and there is a general reluctance at board level to invest in new markets, given the need to produce short-term investment returns.
- Technical service providers or InsurTech may look first at the 'developing world;' if they should be around, then they may face difficulties in setting up partnerships with traditional insurers.
- InsurTech may face difficulties in attracting investors.

Regulatory constraints:

- New ideas need a 'test and learn' environment (a regulatory sandbox) to protect all stakeholders, and especially the financially vulnerable consumers in the innovative project.
- Although Microinsurance / inclusive insurance / m-insurance / IBI regulations would not be enough, they simply don't exist.
- New actors, such as technical services providers, InsurTech, other alternative distribution channels, need an appropriate license reflecting their activities to position them in the market and protect all stakeholders.
- Are digital payments and data protection fully embedded in the existing insurance regulations?

The answers to address the constraints are not only updating and issuing new regulations, but also market engagement and communication driven by the insurance supervisor. Cooperation among the various long-time existing market actors (insurers, brokers, agents, actuarial firms, etc.), the newcomers (InsurTech, FinTech, TSP, etc.) and other governmental bodies involved in innovation (TIC, central bank, etc.) are necessary. Supervisors can morally persuade insurers to undertake in-depth market research amongst the untapped population to better understand their realities, demands and needs. Innovation and new partnerships should be promoted. Education syllabi should include the social economy and financial inclusion at large.

Finally, actuaries should serve public interest: promoting and developing financial inclusion falls within this mission.

8.6 MICROINSURANCE EXAMPLE IN DEVELOPED ECONOMY

To close this chapter, below is an example from France to show that sometimes the impossible may become possible.

- Entrepreneurs de la Cité, a foundation of public utility under the Law 1901, was created in 2007 by eight institutions (AG2R La Mondial, la Banque Postale, CNP assurances, CFDP Assurances, Matmut, April, la Caisse des Dépôts et Evolem) in France.
- The goal is multiple: aiding unemployed people, beneficiaries of social benefits, disabled people, young people, and seniors who all wish to become ‘micro-entrepreneurs.’
- Complementary to the foundation, a broker was created. This broker is the ‘link’ between ‘vulnerable persons’ and insurers to obtain coverage for policyholders considered ‘vulnerable’ and ‘uninsurable.’ Some of those products are called ‘microinsurance,’ although the contents of the products are slightly different from the IAIS definition. The products do not comply with the SUAVE principles either and are conventional insurance products for a population that would not find coverage through the usual brokers and agents.
- The website www.entrepreneursdelacite.org contains more information.

Section 9: Conclusion

The journey for microinsurance, now called inclusive insurance, started a long time ago and is not complete in the majority of the low-income and low middle-income markets. When seeking to enhance inclusive insurance markets, it is useful and necessary to have a good understanding because it entails a different treatment of customers, distribution, products, pricing, client management, premium collection, claims declaration and settlement, and reporting.

Inclusive insurance provides insurance coverage to unserved or underserved populations by conventional insurers, through a diversity of entities and based on generally accepted insurance principles. Insurance, in general, and inclusive insurance specifically, contribute to the achievement of the UN Sustainable Development Goals. The insurance supervisors put in place specific regulatory frameworks to promote and develop inclusive insurance markets. This is necessary to introduce proportionate rules and ensure consumer protection for financially vulnerable policyholders.

Inclusive insurance products are S.U.A.V.E.: Simple, Understood, Affordable, Valuable and Efficiently managed. Products take into consideration the needs and the willingness to pay of the customers. Limitations of data in the targeted markets and scarce technical/STEM skills have an impact on pricing. Therefore, products are ideally launched in a ‘sandbox’ environment to allow the different stakeholders to ‘test and learn,’ modify the product if necessary, and deploy gradually or, if necessary, stop the product.

Despite serious limitations on available data about inclusive insurance in Africa, it can be said that short-term products, such as credit life, life coverages, funeral insurance, and hospital cash benefit, are abundant in all countries. Index-based crop and livestock products get financial and technical support from supranational institutions, and the targeted population being smallholder farmers are getting subsidies in some countries. New distribution channels close to the targeted populations and employing MI agents are entering the various markets.

Partnerships are crucial for the success of MI programs. Those partnerships usually consist of the insurer, the distribution partner and a technical service provider (FinTech/InsurTech). The most mature partnership supports mobile insurance partnerships, being the driver of microinsurance in Africa. Besides mobile insurance, digitalization is progressing, but at a different pace in the various countries of Africa. The insurance supervisor plays a leading role in this innovation process.

Section 10: Acknowledgments

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Appendix A: Microinsurance and the SDGs, ESG and Income Inequality

A.1 THE SUSTAINABLE DEVELOPMENT GOALS

The 2030 Agenda for Sustainable Development, adopted by all United Nations' Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call to action for all countries – developed and developing – in a global partnership. They recognize that ending poverty and other deficiencies must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.[46]

The SDGs are an expanded version of the eight Millennium Development Goals (MDGs), which guided global action to reduce extreme poverty from 2000 to 2015, which now have been developed into 17 goals. These 17 Goals are the layout to achieve a better and more sustainable world for all by 2030.

Figure 15
UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

Inclusive insurance, as a risk management tool, and insurance operations play a critical role in achieving nine of the Sustainable Development Goals. Insurance protects against unexpected financial shocks that set back development progress. Such shocks impact people's livelihoods – they deplete savings, can push people into debt and erode poverty gains.

Through the various insurance products offered by insurers, insurance mitigates the risk that people are exposed to, preventing them from achieving the SDGs. Products are designed to encourage financial health and household resilience in general; for example, products integrated with other financial services provide protection to MSMEs and people in precarious or risky occupations, part of the informal economy, or who lack financial protection. In a sense, insurance catches the segments of the population that fall through the cracks in

[46] Source: www.sdgs.un.org

social protection systems, such as workers who are part of the informal economy, domestic helpers, peasant farmers, petty traders, artisans, and others who may be excluded from healthcare and social security.

Figure 16
INSURANCE CONTRIBUTES TO NINE SDGS

Insurance companies generate revenue, create jobs, and contribute to economic growth. They provide decent work for their employees, agents, and brokers. In order to promote and educate on insurance, inclusive insurance initiatives frequently rely on community organizations and representatives. This opens up opportunities for training and earning money.

A.2 WHY DOES MICROINSURANCE MATTER TO THE SDGS

Microinsurance is a strong development tool for countries looking to encourage inclusive economic growth and socio-economic development. This is mainly since insurance is a risk financing mechanism that allows people to protect their families, livelihoods and wider communities from the financial loss of unanticipated events, which both directly and indirectly play an important role in the Sustainable Development Goals (SDGs).

Figure 17

HOW INSURANCE AFFECTS GROWTH AND DEVELOPMENT[47]

Insurance provides a safety net for those using it, preventing families from falling (back) into poverty after experiencing a shock (The importance of insurance to SDG 1).

Research suggests that when a shock occurs, families without insurance often liquidate their savings, accept gifts and loans from friends and family, borrow at high interest rates, reduce family consumption, disinvest in education, and sometimes must sell productive assets at a discount. All of these coping strategies reduce their resilience to future shocks.

Through its basic function, insurance reduces the vulnerability of people, helps to build the resilience of the poor and those in vulnerable situations and reduces their exposure and vulnerability to climate-related extreme events and other economic, social, and environmental shocks and disasters. Without insurance, low- and even middle-income people can fall (back) into poverty when a severe shock strikes. Insurance helps prevent people from becoming poor due to an unforeseen event leading to financial and social hardship.

Insurance fosters locally driven and sustainable food production by opening lending opportunities where there were none before, and by encouraging investment in enhanced agricultural practices (Importance of Insurance to SDG 2).

The support of agricultural productivity is a key element to eradicating hunger. Many development efforts aiming to eradicate hunger are, therefore, focused on how to support the agricultural sector in ensuring food security.

Crop risk poses a very serious threat for low-income farming households. Risk events deplete the farmers' food stores, and the likelihood of crop risk events makes lenders more reluctant to lend for investments in agriculture

[47] Source: Chamberlain, et al. (2017)

and livestock production. Insurance, especially agricultural insurance, could improve the situation but is currently not easily available to low-income farmers. Over time, specific insurance products could contribute to strengthening the agricultural sector by providing better opportunities for farmers to manage their risks while increasing and diversifying their investments into their agricultural activities, positively impacting production, sustainability, food security, and employment.

Health microinsurance keeps a medical emergency from becoming a financial tragedy.

Poor health hinders social and economic development. Health microinsurance plays a tremendous role in boosting the long-term growth potential of an economy through production of a virtuous cycle. Those with limited or no access to healthcare are unlikely to seek help until their conditions are extremely debilitating. With access to healthcare through microinsurance, sick people can seek treatment earlier and avoid prolonged illness, often meaning fewer sick days and stronger and more productive performance in the workforce. Improved access to healthcare also means children stay in school and perform better which, in turn, boosts national education levels and economic development, as higher education often equates to higher income and, thus, more spending power.

Insurance ensures inclusive and equitable quality education and promotes lifelong learning opportunities for all.

Insurance can help families maintain access to education. Once a shock happens to a family or business, poor families can often no longer afford to invest in the education of their children. A life insurance policy or another form of insurance plan can help to sustain the cashflow for the family and ensure that their children's education is not impacted as a coping strategy. Some insurance products are offering an additional educational savings component, recognizing the demand of low-income populations to have funds available to pay for their children's education.

Partnerships for the Goals

Many of the initiatives aimed at achieving the SDGs will necessitate multi-stakeholder collaboration and coordination to be successful. International development organizations, governments and regulators, non-governmental organizations, industry players, and communities themselves are among the stakeholders. By implementing partnership models in the delivery of their products and services, the insurance industry can be a key partner in sustainable development. They can also actively support and participate in mechanisms that countries put in place to ensure policy coherence, such as policy and regulatory consultation efforts and multi-stakeholder dialogues. Insurance products and services can also play a role in supporting foreign direct investments, exports, and remittances.

Appendix B: Comparison of Conventional Insurance and Microinsurance

ITEM	Conventional Insurance	Microinsurance
Customers	Formal sector (individuals and companies)	Informal and rural sector, low to middle income
Customer profile	Educated, 'affluent', financially aware and risk conscious	Financially vulnerable, lack of financial literacy
Distribution channels	Licensed brokers and agents with good insurance knowledge	Non-traditional distributors close to the customer with expanded tasks
Product	Complex, with several guarantees	Simple, often backed by a non-insurance product, taking into account the ability to pay
Underwriting process	Insurance proposal, risk assessment	Simple enrolment
Pricing	Depending on the risk	Based on community pricing and ability to pay
Insurance contract	Complex document, many exclusions	Comprehensive language, standardized text, short, few or no exclusions
Frequency of payment	Regular	Irregular, frequent and adapted to the client's cash flow
Method of payment	Bank transfer, check, credit card	Cash, mobile money wallet, cell phone credit, Central Bank cyber money, alternative modes
Claims	The claims reporting and settlement process can be long and tedious	Reporting is simplified and claims settlement is fast.
Supervisory reporting	Financial statements and comprehensive reports	Simplified and regular reporting

Appendix C: SUAVE

- Simple: the product and its documents, exclusions, and procedures are simple for the policyholders, beneficiaries and agents; for example, the product is providing one guarantee, clearly indicated in the policy document, there are no exclusions and a claim declaration can be done with simplified documents (e.g., picture of a house burnt or statement from a village chief that the policyholder died, sent through social media);
- Understood: the marketing documents are easy to understand and the clients and staff dealing with clients are well informed and financially literate; this means that documents and exchanges are using plain language (e.g., understandable, no hidden clauses), preferably in a prescribed standardized disclosure format;
- Accessible: the payment systems for premium collection and claim payments are easily accessible 'at a distance'; both a complaints process and dispute resolution exist and are also easy; this means, for example, that new payment systems, such as digital money, distance-boarding and electronic signatures, exist, and a system is put in place that allows customers to seek affordable and efficient recourse with a third party (e.g., supervisory agency or a financial ombudsman);
- Valuable: the product responds to the demand based on research of the targeted market segments, taking into consideration the "willingness to pay" at a fair price for the client, providing sufficient coverage and giving the client the possibility to opt out; sufficient assistance will be provided to clients to understand the value of what they buy; this means, for example, that the loss ratio of the product is between 60-80% as recommended by a2ii[48]; a low loss ratio indicates low value for the client, which may be explained by low literacy or awareness of the product or making it too expensive; a limited understanding of the needs and realities of the targeted market segments may also lead to unfair pricing and selling an existing product, which was developed for different purposes, rather than a product tailored to meet specific customer needs;
- Efficient: client servicing is supported by innovative technology capable of tracking the microinsurance activity, offering digital payment systems, monitoring the process to eventually make improvements and the cost; this also means that InsurTech or other technical service providers (TSP) offering technological innovations may provide solutions to insurers managing with legacy systems, taking into account the partnership challenges and regulatory shortcomings regarding licensing of those newcomers.

[48] a2ii: Ratios and cost structures in insurance supervision, March 22, 2018

Appendix D: Financial inclusion

Among the **financial services**, the following are available:

- Money transfer and payments,
- Inclusive finance (or microcredit), including different credit and savings products (or micro-savings),
- Inclusive insurance (or microinsurance, insurance for all, broad impact insurance, insurance for emerging customers) with risks covered such as climatic, death, health, accidents, housing, theft, etc.,
- Micro-pensions.

Non-financial services cover a wider field. They can include:

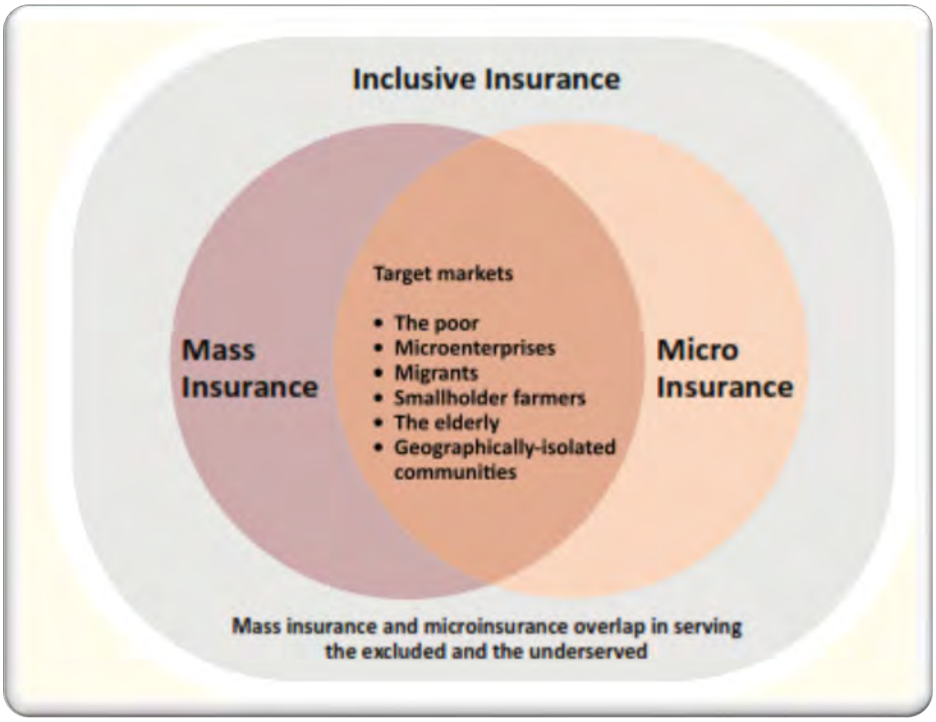
- Financial literacy building and awareness creation,
- Training in business management, risk, governance for nano, micro, small and medium enterprises,
- Advice and technical expertise.

Inclusive insurance is defined by IAIS as follows:

"Inclusive insurance is a tool affording unserved (wholly or partially) populations appropriate insurance cover[age]*. It should be noted that "**inclusive insurance**" and "**access to insurance**" are **not** issues limited to emerging markets and developing economies. The terms inclusion and access are often used synonymously and represent a concept broader than microinsurance. These terms relate to all insurance products aimed at the **excluded** or **underserved** market, rather than just those aimed at the poor or a narrow conception of the low-income market, whereas **microinsurance is specifically aimed at low-income populations**. Any type of insurer regardless of its size, legal form and location can contribute to the enhancement of access to insurance."*

The below illustration from the paper on "Proportionate regulatory framework in inclusive insurance" published by a2ii in November 2016 visualizes the interaction between inclusive insurance, microinsurance and mass insurance. Microinsurance and mass insurance are strategic approaches that were developed from two different, but complementary, perspectives. Microinsurance was premised on defining the low-income segment as the target market. Mass insurance was premised on unlocking channels and significantly widening outreach without any particular target consumer profile in mind – the most known example is Bancassurance. In the intersection of both, microinsurance is distributed using mass distribution channels such as mobile network operators, micro-financial institutions, and post offices (list non-exhaustive).

Figure 18
INCLUSIVE INSURANCE



Appendix E: Comparison of Microinsurance Regulations

ITEM	CIMA	Ghana	Kenya	Uganda	Ruanda
Promulgated / Draft Regulations	Book VII, April 5, 2012	Market conduct rules, guidelines, explanatory note; in force since 2013	Separate regulations & secondary legislation 2018 & primary legislation 2019	Interim MI Guidelines 2016 & Draft MI Regulations 2018	Regulation N°2100/2018 - 00012 of 12/12/2018 of the BNR - under revision
Applicant for approval	Insurer	Insurer	Insurer	Insurer	Insurer
Functional or Institutional Approach to Regulation	Functional and Institutional; however, insurer must still apply for approval as microinsurance is considered a new line of business	Functional (a microinsurance product is an insurance product that meets additional requirements)	Functional (i.e., product-based) and institutional (i.e., microinsurer-based)	Functional (i.e., product-based) and institutional (i.e., microinsurer-based)	Functional (i.e., product-based) and institutional (i.e., microinsurer-based)
Inclusive insurance or microinsurance	Microinsurance	Inclusive insurance	Microinsurance	Clearly defined inclusive insurance	microinsurance
Mass insurance	Not mentioned	Included in the inclusive insurance	Included in the inclusive insurance	Included in the inclusive insurance	Not mentioned
Bancassurance	No regulation	Mass insurance and separate regulation	Mass insurance and separate regulation	IMF expilcitement mentioned	Not mentioned
Index insurance	Circular	Special mention in Insurance Act though no regulation yet; pilot projects have taken place	Separate draft regulation	Separate regulation but products mentioned in the annexes	Not mentioned
Target market segments	Low-income people	Low-income people, MSMEs, mass market clients	Low-income people, MSMEs, mass market clients	Low-income people; people excluded from traditional insurance, micro/small businesses, mass market clients	poor and low-income households, low-income businesses, small businesses
Lines of insurance	Mentioned	Not mentioned	Not mentioned	short term': death and accident, health, agricultural & livestock (indexed), property	Insurance on property, livestock, fishing gear, agricultural products, sickness, death; exclusion of life insurance products with long-term character

ITEM	CIMA	Ghana	Kenya	Uganda	Ruanda
Life and Non-Life Specialization	A non-life product may include annually renewable death	Not mentioned; but compound product allowed	Not mentioned; but compound product allowed	Composite life and non-life product allowed; but underwritten by one life and one non-life insurer together; 'lead' insurer if composite product; process comparable to coinsurance	No, life and non-life, or one of the two
Distribution networks	Exhaustive list in Article 731 of Book VII; referred to as: intermediary	Not mentioned; in practice: as CIMA; introduction of term 'corporate agent	Not mentioned; however, network (as defined in CIMA) = group insurance underwriter	Called: informal MI providers: cooperatives, NGOs, MFIs, funeral homes, mutuals, informal groupings	Not mentioned
Technical service provider	Must have broker's licence	Intermediary for managing microinsurance-related services; different from a microinsurance agent but can be the same; separate regulations	Intermediary for managing microinsurance-related services; different from a microinsurance agent but can be the same	Intermediary for managing microinsurance-related services; different from a microinsurance agent but can be the same	
Approval / submission of Service Level Agreement (SLA)	Not mentioned	Not explicitly mentioned but to be handed in	Yes: group insurance contract	Yes; content defined	Not mentioned
Duration of Agreement, Conditions and Effects of Termination of Agreement		Mandatory in the agreement	Mandatory in the agreement	In the content	
Microinsurance product approval	Yes, very brief	Yes; but shortened procedure for the actual approval (file & go: product automatically approved unless NIC has remarks within one month after the submission of information	Yes	Yes - comprehensive file detailed in the settlement to be submitted by the insurer	Yes - comprehensive product evaluation report to be submitted

ITEM	CIMA	Ghana	Kenya	Uganda	Ruanda
Life and Non-Life Specialization	A non-life product may include annually renewable death	Not mentioned; but compound product allowed	Not mentioned; but compound product allowed	Composite life and non-life product allowed; but underwritten by one life and one non-life insurer together; 'lead' insurer if composite product; process comparable to coinsurance	No, life and non-life, or one of the two
Distribution networks	Exhaustive list in Article 731 of Book VII; referred to as: intermediary	Not mentioned; in practice: as CIMA; introduction of term 'corporate agent	Not mentioned; however, network (as defined in CIMA) = group insurance underwriter	Called: informal MI providers: cooperatives, NGOs, MFIs, funeral homes, mutuals, informal groupings	Not mentioned
Technical service provider	Must have broker's licence	Intermediary for managing microinsurance-related services; different from a microinsurance agent but can be the same; separate regulations	Intermediary for managing microinsurance-related services; different from a microinsurance agent but can be the same	Intermediary for managing microinsurance-related services; different from a microinsurance agent but can be the same	
Approval / submission of Service Level Agreement (SLA)	Not mentioned	Not explicitly mentioned but to be handed in	Yes: group insurance contract	Yes; content defined	Not mentioned
Response time for the controller	3 months for a product - indefinite for a microinsurer approval	No application	30 days	30 days	30 days
Modification or withdrawal of product and/or agreement	Mandatory information by the insurer and/or insurer	Mandatory information by the insurer	Mandatory information by the insurer and/or insurer	Mandatory information by the insurer and/or insurer	Information
Insurance agent training	Yes, 48 hours; after business card	Not mentioned	Yes, 25 hours + minimum 15 hours every 3 years;	Yes, microinsurance training with examinations as defined in the regulations; at the end of the examinations	Not mentioned

ITEM	CIMA	Ghana	Kenya	Uganda	Ruanda
Professional card / controller information	Yes / Yes	No / Yes	No / Yes	Yes / for staff working for MI providers, intermediaries.	Not mentioned
Limitation on commissions	Possible under section 733; not implemented	No	Yes: 15% of the premium	Max 10% or whatever is defined by the controller; must be 'reasonable' and cannot diminish the value to the customer	Not mentioned
Certification of the product by a qualified actuary	No	By actuary (associate or fellow of IFoA, SoA, CIA, ASSA)	By actuary (associate or fellow of the IFoA, SoA)	By actuary (associate or fellow of the IFoA, SoA)	By actuary (associate or fellow of the IFoA, SoA)
Microinsurance LOGO	No	Mandatory	No	Mandatory	Mandatory 'microinsurance product' statement and logo
Microinsurance product features					
Indemnity or lump sum insurance	Not mentioned	Not mentioned	Fixed price	Not mentioned	Both
Product definition: qualitative or quantitative	Quantitative	Qualititative SUAVE	Qualititative SUAVE	Qualitative SUAVE - very detailed and comprehensive requirements in the regulation	Qualititative SUAVE
Duration of insurance	max 12 months renewable annually by tacit agreement; life insurance: up to 5 years (unsuccessful)	max 12 months renewable annually by tacit agreement	max 12 months renewable annually by tacit agreement	max 12 months renewable annually by tacit agreement	max 12 months
Quantitative limits	Premium max 3500 FCFA (5.33€) /person/month (revisable per country)	No	Max SA = +/- US$ 5000; max daily contribution: US$ 0.40	No	Maximum amount to be insured
Reinsurance	No	To be delivered	To be delivered	If necessary	If necessary

ITEM	CIMA	Ghana	Kenya	Uganda	Ruanda
Pricing	Nothing mentioned; for life insurance: technical basis of conventional insurance	community based' ('group')	community based' ('group')	community based and based on actuarial principles	On an actuarial basis
Minimum S/P	No	No, but proof that the product has value for the customer; between 50 and 70	No	No	No
Waiting period	no	Maximum 6 months	Mentioned without precise indication	No	Maximum 3 months for a new policy; not for renewals
Grace period	no: no payment, no insurance	Yes min 31 days	Minimum 45 days; not for index insurance	No	Minimum 30 days provided that at least 3 monthly premiums have been paid prior to the date of the unpaid premium
Freelook period - cooling off period	no	Yes minimum 15 days	not mentioned but applied for classic insurance so assumed to exist	30 days	10 days
Commencement of insurance	After payment of 1st premium	Nothing; client informed of consequences of non-payment	After payment of 1st premium	After payment of 1st premium or if proof provided	After payment of 1st premium
Payment of claims	Within 10 days after acceptance of claim	Within 10 days after acceptance of claim	Within 10 days of notification of loss	Within 10 calendar days of acceptance	Within 10 calendar days of acceptance
Acceptance/refusal of a claim	Information within 7 days	Information within 7 days	Within 10 days of notification of loss	Within 7 days after notification of claim; if denied, within 10 days after notification	Within 7 days after notification of claim; if denied, within 10 days after notification
Digitalization	Not mentioned	Not mentioned	Not mentioned - but sandbox	Explicitly mentioned in the requirements	Yes - re-enacting the existing e-commerce regulation
Electronic signature	Not allowed (yet)	Not mentioned	Not mentioned - but sandbox	Not mentioned	Yes - re-enacting the existing e-commerce regulation

ITEM	CIMA	Ghana	Kenya	Uganda	Ruanda
Registered letter for client notification	A simple letter is sufficient; no registered letter is required	Simplified information mechanisms	Simplified information mechanisms	Simplified information mechanisms	Simplified information mechanisms
Consumer protection	Only: article 715	At the insurer and Ombudsman at NIC	At the insurer and Ombudsman at NIC	Yes - in the requirements for the insurer and Consumer Protection Code	Yes
Specific' protection of funds under management	No	No	No	Yes - special account	Separate accounts required
Complaint Management	Not mentioned	At the insurer and Ombudsman at NIC	At the insurer and Ombudsman	with the insurer; solution within 25 days	Internal system at the insurer/microinsurer
Communications to the Controller					
Periodicity	Quarterly and annual	Quarterly and annual	Quarterly and annual	Quarterly and annual	Quarterly and annual
Information	Key Performance Indicators	Key performance indicators + details + actuarial report	Key Performance Indicators	Product monitoring detailed in the regulation	No KPI
Application and approval fees	No	Yes	No mention	Yes	Yes
Renewable license	No	Yes, annually with a renewal fee	Yes, annually with a renewal fee	Yes, annually with a renewal fee	No
Sandbox	No	Already exists without an explicit environment; now preparing a structured sandbox environment with the introduction of the Kenya IRA bimabox	https://innovationhub.ira.go.ke/bimabox	Mandatory pilot-testing with supporting evidence; these projects are executed in compliance with the sandbox regulation	Environment provided for in the regulation
Quality Assurance				Use best practices that have been tested and used by microinsurance providers in other countries	

Appendix F: What is a Sandbox?

What is a Sandbox?	
FALSE	**TRUE**
An opportunity to circumvent regulations or to market a product without regulations	A regulatory framework to relax existing regulations for a limited time
No need for regulation of sandbox areas	Formal or proposed regulations exist for the sandbox areas
Large-scale commercial deployment	Small-scale deployment for a reduced number of consumers
Unlimited marketing	Limited time marketing (maximum 1 year)
Marketing without follow-up	An activity with regular and exhaustive reporting to the Authority
	The Authority may stop the sandbox
	After a successful sandbox, the Authority considers granting approval; however, there is no guarantee of this
An activity with minimal technological support	An activity with state-of-the-art technology that is fully operational and tested beforehand
A little tested product	A fully tested product
Without local resources, with mainly external support	With 'fit and proper' resources available to the institution applying for the sandbox license
An activity prepared in-house	The institution applying for the sandbox license has partners with comparable successful experiences in other countries
Does not require additional investments	Requires considerable investment upstream, during and after, often in venture capital

Appendix G: Comparison of Regulatory Sandboxes

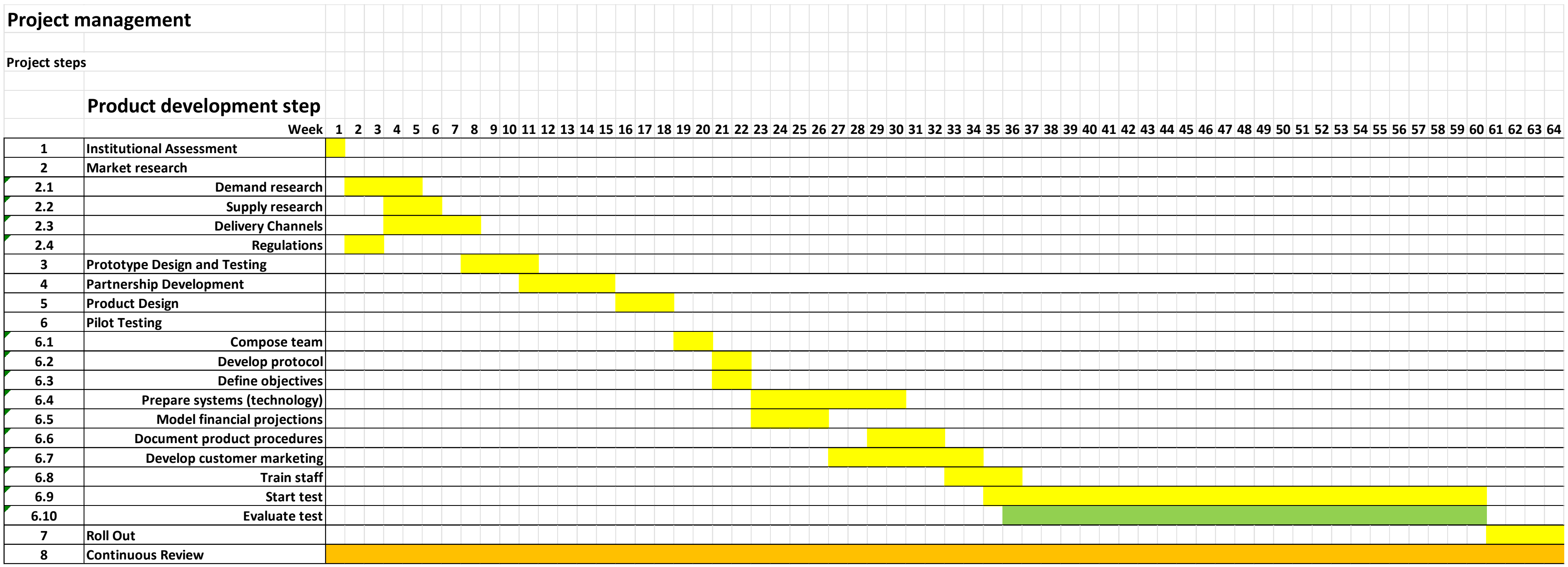
Object	Kenya	Uganda	Rwanda
Code (Insurance Act)	Insurance Act revised February 2020	Insurance Act 2017 - effective March 30, 2018	Law governing the organization of the insurance business - June 30, 2021
Microinsurance	Draft MI Regulations 2018	Interim MI regulations 2016	Regulation N°2100/2018 of 12/12/2018
Mobile Insurance	In the sandbox	2020 Regulations	
Index Insurance	Draft Regulations 2018	2020 Regulations	Definition in the law of June 30, 2021 - Specific regulation not existing (see site: www.bnr.rw)
Sandbox	Yes (2019)	Yes (2020)	Yes (2018)
FinTech		2020 Guidelines	
InsurTech			Regulation N°2100/2018 of 12/12/2018
FinTech/InsurTech	Guidance Note 2019		
Definition	A tailored regulatory environment for live testing of innovative insurance products, services and solutions subject to the requirements of supervisory guidance notes	A regulatory environment set up by the regulator to allow small-scale live testing of innovative insurance products, services or solutions by individuals and private companies in an environment under the supervision of the regulator	Live, contained environment in which participants can test their product, service or solution subject to the requirements of these rules

Object	Kenya	Uganda	Rwanda
Applicants (participants)	Including, but not limited to, financial institutions, technology companies and technical service providers	Technology and computer companies that have a partnership with a licensed insurer	Microinsurer or insurer
Registration of Sandbox Participants	In Kenya	In Uganda	In Rwanda
Objective	A time-limited, small-scale enabling environment for the deployment of new and innovative technologies and business models with safeguards for the financial system and consumers	Establish a time-limited, small-scale environment for testing innovations with consumer protection measures; prepare regulations for experimentation and innovation with technology and products	To provide an innovative product or service within the scope of regulated services, if such product or service does not clearly correspond to one of the currently regulated services or products or represents a hybrid product
Eligibility Criteria	Very detailed conditions with an application form	Very detailed conditions comparable to those in Kenya	Detailed conditions - Article 57 - comparable to Kenya - but not structured
Evaluation Criteria	Article 6 - Detailed and comparable with Uganda	Article 7 - Detailed and comparable with Kenya	Scattered in several articles
Risk Management	Article 7 - informing clients of the potential risks of participating in a sandbox - limiting the number of clients in the sandbox - restricting to a defined segment - repairing the client - adequate resources to test scenarios if sandbox fails	A comprehensive but separate regulation for risk assessment with a form for assessment	Not indicated

Object	Kenya	Uganda	Rwanda
Response Time after Submission of the Application	Within 21 days after submission of the complete file then evaluation by the authority for an unspecified period	Duration not mentioned; at the end if authorized, memorandum of understanding	Within 15 business days of receiving a complete application
Duration of the Sandbox	12 months	12 months	6 months
Extension of the Sandbox Duration	Yes, if the tests are generally positive and if specific parameters require further testing	Yes, for a maximum period of 6 months	Yes, if requested at least 30 days before the end of the test and if the tests are generally positive and if specific parameters require further testing
Publication of Sandbox Information		On the website or any other means	
Authorization for Commercial Deployment	At the end of the test period if the authority determines that the applicant(s) has the ability to comply with the applicable licensing, accreditation and registration criteria	Not indicated in the regulation	At the end of the test period, the authority submits a file for approval. Then, the authority judges whether the applicant(s) has (have) the capacity to comply with the applicable criteria for licensing, approval and registration.
Revocation of the Sandbox	Yes, Article 11 - 9 reasons	yes, Article 15	yes, in Sections 60 and 61
Exit from the Sandbox	Following revocation, following non-authorization, following the request of the applicant	Following revocation, following non-authorization, following the request of the applicant	Following revocation, following non-authorization, following the request of the applicant
Reporting to the Authority	Article 9 - monthly	Every month	As agreed
Reporting at the End of the Authorized Sandbox Duration	Article 9 - within 30 days after expiration - details in Article 9 (4)	Final report with conclusions	Final report with conclusions

Object	Kenya	Uganda	Rwanda
Support of Authority		Technical support for pricing, product development and information; establishment of a network of sandbox companies for exchange	

Appendix H: Planning for Microinsurance Product Development



Appendix I: Abbreviations

Abreviation	Full	Website (if applicable)
a2ii	Access to Insurance Initiative - www.a2ii.org	www.a2ii.org
ADA	Appui au Développement Autonome	www.ada-microfinance.org/
ATP	Availability to Pay	
B2B	Business to Business	
B2C	Business to Customer	
CIMA	Conférence Interafricaine des Marchés d'Assurance - Interafrican Federation of Insurance Markets	www.cima-afrique.org
ESG	Environment, Social Responsibility, Governance	
FinTech	Financial Technologies	
GIZ	German Internationales Zusammenarbeit	
GPFI	Global Partnership for Financial Inclusion	datatopics.worldbank.org/g20fidata/
IAA	International Actuarial Association	www.actuaries.org
IAIS	International Association of Insurance Supervisors	www.iaisweb.org
IBI	Index-Based Insurance	
ICP	Insurance Core Principles	www.iaisweb.org
IFSB	Islamic Financial Services Board	www.ifsb.org
ILO	International Labor Organisation	
InsurTech	Insurance Technologies	
MFI	Micro Finance Institution	
MI	Micro-insurance	
MN0	Mobile Network Operator	
MTPL	Motor Third Party Liability	
NGO	Non Governmental Organisation	
PPP	Purchasing Power Parity	
SDG	Sustainable Development Goals	
STEM	Sciences, Technology, Engineering, Mathematics	
SUAVE	Simple - Understood - Accessible - Valuable - Efficient	www.microinsurancecentre.milliman.org
TSP	Technical Services Provider	
WAEMU	West African Economic and Monetary Union	www.uemoa.int
WB	WorldBank	
WTP	Willingness to Pay	

Appendix J: Glossary

Item	Definition	Source
Conventional insurers	Insurers providing insurance operations as known today in developed economies and addressing the needs of the industrial actors and financially literate consumers with a regular income, working in the formal sector.	
Digital Inclusive Insurance	Insurance utilizing digital mechanisms to improve its outreach and delivery. Outreach and delivery are core elements for increasing access of the un(der)served to insurance services.	IAIS
FinTech	FinTech refers to technologically enabled financial innovation which could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services	IAIS
Innovation	The extent to which the insurance sector "does things differently" to reach new customers or introduce new products and services (World Bank, 2019), as well as introduce new cost efficiencies. This includes the extent to which the sector adopts technology and digitalization.	a2ii
InsurTech	InsurTech is the insurance-specific branch of FinTech that refers to the variety of emerging technologies and innovative business models that have the potential to transform the insurance business	IAIS
Market opportunity	The extent to which insurance is viable and needed, based on whether there is "a sufficient level of income, stability in the economic environment and the presence of industrial activity" (Chamberlain, et al., 2017). Covers factors within and beyond the insurance sector.	a2ii
Mass insurance	Insurance sold via mass aggregators	a2ii
Microinsurers	Insurers only providing microinsurance operations	
m-insurance	Refers to any insurance that is sold or subscribed to through a mobile phone and/or in partnership with a mobile network operator (MNO)	a2ii
Technical Services Provider	Technical services provider (TSP) is a provider of technical services to a distribution partner, insurer or any other party in the insurance value chain. Such services can include actuarial services, data services, international development services or country- or market-specific knowledge on how to reach a type of consumer.	IAA

References

N°	Document	Website
1	Application paper : Issues in regulation and supervision of microinsurance - June 2007	www.iaisweb.org
2	Application paper on approaches in supervising the conduct of intermediairies - November 2016	www.iaisweb.org
3	Application paper on index based insurance particurarly in inclusive insurance - June 2018	www.iaisweb.org
4	Application paper on product oversight in inclusive insurance - November 2017	www.iaisweb.org
5	Application paper on the use of digital technology in inclusive insurance - November 2018	www.iaisweb.org
6	Assessing riks and proportionate actuarial services in inclusive insurance markets - November 2018	www.actuaries.org
7	Assessing the gap in actuarial service in inclusive insurance markets - May 2014	www.actuaries.org
8	CIMA - Code des Assurances - 2017	www.fanaf.org
9	Consumer risks in mobile insurance - Consultation call a2ii-IAIS - November 2015	www.a2ii.org
10	Financial products and services for women's financial inclusion: a policy and regulation design toolkit	www.afi-global.org
11	Guidelines : A market systems approach to financial inclusion - September 2015 - CGAP	www.cgap.org
12	IAA Risk Book: Chapter on inclusive insurance	www.actuaries.org
13	IAIS Report on FinTech developments in the insurance sector - December 2022	www.iaisweb.org
14	Inclusive insurance in Ghana - August 2022	www.microinsurancenetwork.org
15	Inclusive insurance in Morocco - November 2021	www.microinsurancenetwork.org
16	Inclusive insurance in Rwanda - May 2022	www.microinsurancenetwork.org
17	Inclusive insurance in Senegal - February 2022	www.microinsurancenetwork.org
18	Index Insurance: 2020 Status and Regulatory Challenges	www.a2ii.org
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20	Insurance and the sustainable development Goals - Policy Note - March 2021	www.a2ii.org
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28	Performance indicators for microinsurance - A handbook for microinsurance practioners - October 2010	www.ada-microfinance.org
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31	Rapport sur la situation de l'inclusion financière dans l'UEMOA au cours de l'année 2021 - Juillet 2022 - Banque Centrale des Etats de l'Afrique de l'Ouest	www.bceao.int
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33	Regulatory and supervisory technologies for financial inclusion	www.afi-global.org
34	Role of insurance in reducing income inequality - sigma 03/2022	www.swissre.com
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39	The landscape of Microinsurance 2020	www.microinsurancenetwork.org
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