



Article from

International News

May 2016

Issue 68

Microinsurance: A Case Study in Togo

By Queenie Chow and Renata De Leers

Microinsurance has the potential to protect the financial needs of more than 4 billion individuals. Without doubt, it is the poorest people in the world who are most in need of the security that insurance brings. While microinsurance is referred to as inclusive insurance designed for the low-income population, unfortunately it is not being fully accessed by this group. In the absence of market and consumer knowledge, providers for these low-profile risk mitigation products have limited capacity to match products with consumer needs. As a result the microinsurance market continues to have low penetration and renewal rates.

FONDS NATIONAL DE LA FINANCE INCLUSIVE (FNFI)

Fonds National de la Finance Inclusive (FNFI) is a government initiative which aims to provide inclusive financial protection and savings products for the low-income population in Togo. In addition to providing financial education to low-income groups, it also supports initiatives for effective management in the area of micro-enterprise. One of the initiatives of FNFI is providing small loans (50 000 Francs CFA to 300 000 Francs CFA) reimbursable over short periods (six months to a maximum of two years) targeting extremely-low-income workers in the informal and rural sectors in Togo. Each loan was to be accompanied with a bundled microinsurance product (health, personal accident and property) and a separate micro-credit life product. Unfortunately, insurers did not support this microinsurance feature and instead proposed a conventional insurance product with small premiums and small sums insured. I had the valuable opportunity to work under the guidance of my 'local' Belgian actuarial colleague with 20 years of experience in this socio-economic environment to reorient the initial product offer towards an authentic microinsurance product, following SAUVE requirements described below, in hopes of kicking off microinsurance in Togo.

MICROINSURANCE PRODUCT DESIGN: THE SAUVE REQUIREMENTS

In many ways, microinsurance requires a shift in thinking for insurers—turning away from conventional products. Insurers often have the misunderstanding that microinsurance products are similar to conventional insurance policies just with small premiums and little benefit payout. In reality however, the design of microinsurance products has some unique implications. A microinsurance product must satisfy the following important attributes—simple, accessible, easily understood, valuable and efficient, known as the SAUVE requirements where each of these attributes is tailored to the needs and

constraints of the low-income population. Microinsurance products thus have different requirements for underwriting, claims management and product simplicity while also requiring scale, innovation and risk management. One example that came up during our project with FNFI was that the insurance provider intended to use the same claim declaration template as used for their existing insurance product for the microinsurance product. For the low-income groups in Togo, where many clients are illiterate without pen or paper, such declaration templates would be simply inaccessible. A product may thus easily fail if it is not well designed, and this may weigh on the reputation of insurance in developing markets.

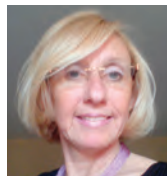
UNDERSTANDING THE PROFILE OF YOUR CLIENT

The pricing process for this new microinsurance product further emphasized the importance of understanding the clients' profile and their needs in order to provide valuable insurance to different groups among the low-income population. The insurer had initially submitted pricing that was based on the experience of its currently insured population, middle and high income class. Furthermore, these pricing assumptions were created based on an IT extraction which lacked reliable and sufficient underwriting and claims data. The question we pose to our readers is: can we accurately price the risk of a group of an extremely low-income population using the past experience of higher income classes while using the same arithmetic formula without contingency loading? While the answer seems obvious, it is indeed a challenge that regularly needs to be addressed in the area of microinsurance. Only through adequate understanding of our clients' profiles and needs can we enhance the design of appropriate products and identify the steps which should be taken to ensure the adoption of these products by the poor.

As the French say—"on ne peut pas aimer ce qu'on ignore." In order to provide a successful microinsurance product, insurers must understand the needs of their clients as well as their current risk-management behavior, their profile and the overall potential market. Insurers must also change their mindset from provision of a conventional product to a microinsurance product. Competent and skilled regulators are crucial as they should coach, develop and lead these new markets which targets vulnerable clients. ■



Queenie Chow is a consulting analyst at Russell Investments in Melbourne Australia. She can be reached at queeniechow0320@hotmail.com.



Renata De Leers, Actuary IA/BE (Institute of Actuaries in Belgium), is a consulting actuary based in Togo. She can be reached at rdeleers@acbfora.com.