Microinsurance: Striving to Provide Valuable Insurance Coverage to Billions of Emerging Consumers Globally

By Michael Weilant, Michael McCord and Katie Biese

Emerging consumers in developing markets represent a huge opportunity for insurers that operate in increasingly saturated insurance markets. Billions of individuals face myriad risks every day as they strive to provide for their families, grow their businesses, and protect their health and livelihoods. Yet so many of them lack access to basic safety nets or insurance, and one adverse shock can wipe out any gains and lock them into poverty traps. Is it possible to effectively and sustainably serve this market with insurance? The answer is yes: with microinsurance!

WHAT IS MICROINSURANCE?

Though dozens of definitions exist and are much debated, microinsurance in the most basic sense can be described as insurance that has been adapted to meet the needs of low-income populations. More formally, microinsurance products are risk-pooling products that are designed to be appropriate for the low-income market in relation to price, terms, coverage, and delivery mechanisms.[1] Similarly, the International Association of Insurance Supervisors (IAIS) defines microinsurance as "insurance that is accessed by low-income populations, provided by a variety of different entities, run in accordance with generally accepted insurance practices."[2] Designing for specific markets is something that insurers have done for well more than a hundred years. This particular market segment just requires a clear understanding of its needs and abilities, the same way we might understand these issues in other market segments.

THE MICROINSURANCE PARADIGM

In order to provide valuable insurance coverage for low-income populations while still providing a fair profit for insurers, microinsurance products must be SUAVE: simple, understood, accessible, valuable and efficient. The SUAVE methodology[3] is designed to develop sustainable microinsurance products that not only benefit the client but also the distributor and insurer:

- **Simple:** It is essential—products must have clear terms and conditions that are easily understood and explained. Yes, this means eliminating some common exclusions in traditional policies. Documentation and procedures must be easy for clients and beneficiaries to accomplish. Many good microinsurance products can fit the key information onto a document the size of a business card, or into a 160-character SMS text message.

- **Understood:** The product is more likely to be understood if it is simple. Nevertheless, it is important for insurers to have plans and processes in place for ensuring that low-income clients and beneficiaries know what is covered by their policies—and this means more than simply providing a policy document or statement of coverage. Often this means incorporating an educational approach to marketing.

- **Accessible:** Accessibility is important for all aspects of the insurance experience—from marketing to premium collection, policy questions, claims payments and dispute mechanisms. Low-income people have unique income streams and cycles, as well as different daily routines and touch points than the traditional insurance markets. Processes must be designed with the local context in mind such that they minimize the costs and stress involved.

- **Valuable:** Products must have value for the end client as well as the insurer and distribution channel. Therefore, product design must be informed by the realities of the target market, and offer value in terms of both claims and service. It also must be priced properly, so as to be affordable and still provide a **fair** profit to providers.

- **Efficient:** A key factor linking these initial four criteria is that the entire offering must be efficient. Administrative costs rather than claims can be the driving factor of profitability for insurers[4]; thus, reducing distribution and administrative costs is critical. This is increasingly done with new technologies. Partnerships can link insurers with large client bases more efficiently than individual sales forces. And, of course, this means tracking key performance indicators and processes so as to fully understand underlying costs.

> Emerging consumers in developing markets represent a huge opportunity for insurers.

This sounds straightforward, but is microinsurance really working in practice? Yes! Estimates from landscape studies of microinsurance show that microinsurance has increased in outreach from 78 million lives insured in 2005 to about 263 million as of 2014.

WHAT TYPES OF MICROINSURANCE PRODUCTS ARE CURRENTLY OFFERED GLOBALLY?

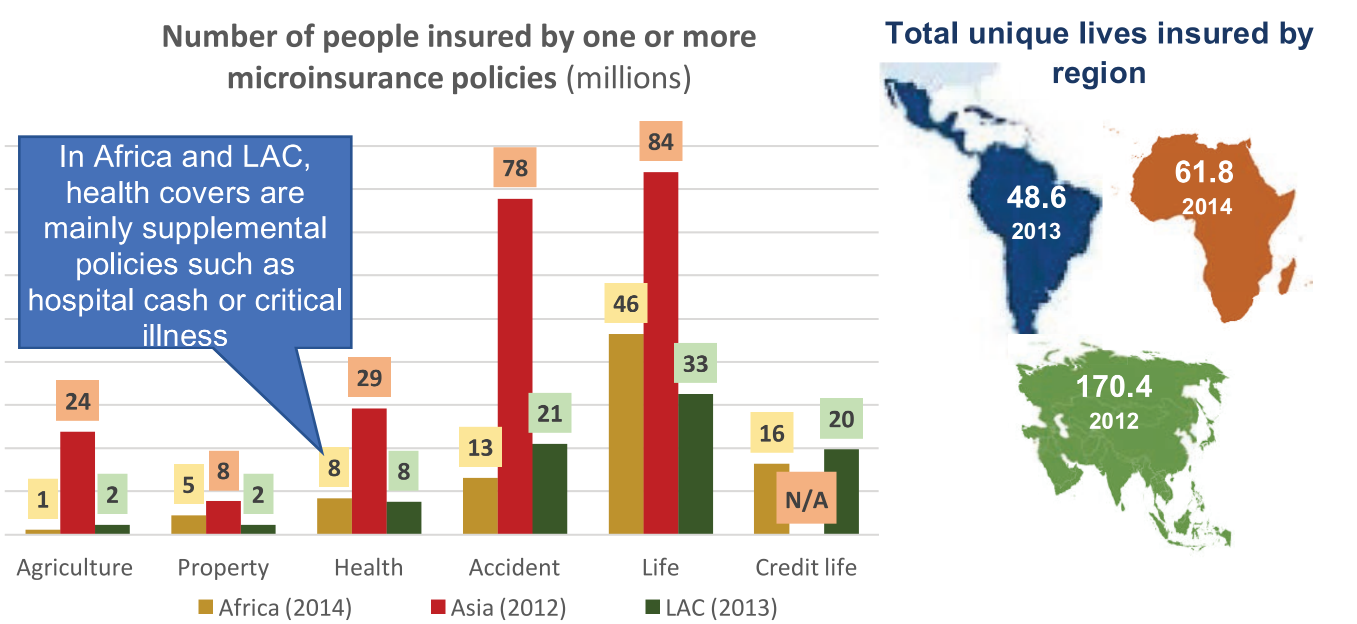
As Figure 1 depicts, short-term life and personal accident products dominate the microinsurance market thus far. However, we are seeing product evolution toward more voluntary products, more health and property coverage, and more bundled products. From 2011 to 2014 health microinsurance in Africa experienced the highest growth rate. This was largely driven by an increase in supplemental products, such as hospital cash, that are designed to complement existing government health coverage and cover other out-of-pocket expenses that can be burdensome to low-income people. These products are less costly to deliver as they don't require complex claims adjustment processes. Similarly, critical illness and hospitalization products dominate health microinsurance in Latin America, where they are primarily offered as a secondary coverage bundled with a credit life or term life policy. With agriculture and climate change big on many global agendas, a number of donors and public-private partnerships are trying to address risk protection for smallholder farmers by developing index insurance programs. While increasing in number in Africa and Asia, most of these programs have yet to reach scale and sustainability.

DISTRIBUTION IS THE KEY—DRIVEN BY TECHNOLOGY

Perhaps one of the most important aspects of ensuring SUAVE microinsurance is in its delivery—insurers must meet low-income people where they are, and they must do so efficiently. This means many of the channels often used in traditional insurance will not be appropriate. In the early days of microinsurance, insurers looked to microfinance institutions (MFIs) to distribute products to their clients; this was a natural partnership as MFIs were dedicated to offering financial services to low-income people. However, only a small percentage of global low-income people are members of microfinance institutions. Thus, in order to truly expand the market, other channels are necessary. As of a 2014 estimate, only 25 percent of all microinsurance was distributed via MFIs in Latin America, and just 15 percent of insureds were reached by MFIs in Africa.[5] Other distribution channels that have facilitated the expansion of microinsurance include cooperatives, agriculture input suppliers, banking correspondents, utility companies, post offices, remittance offices, pawn shops, rural banks and more.

Technology is increasingly expanding the range of possible channels and helping to reduce costs of selling and servicing low-premium policies. One of the most prolific channels over the last five years has been mobile phones, which have been

Figure 1.
Number of insureds globally - microinsurance



Source: Landscape of microinsurance in Africa 2015 (Microinsurance Network), Landscape of Microinsurance in Latin American and the Caribbean 2014: A Changing Market (Microinsurance Network), Landscape of Microinsurance in Asia and Oceania 2013 (Munich Re Foundation) used both passively and actively to provide insurance coverage and service products. In some cases, specific applications like WhatsApp have been used as a medium for those interactions. As of July 2017, two technical services providers alone facilitate over 80 million policyholders, primarily through mobile networks.

Indeed, InsurTech is playing a role in addressing several of the core challenges of microinsurance. A recent study by Cenfri, an independent think-tank based in South Africa, focused on financial inclusion and scoped almost 160 InsurTech initiatives and how they are responding to challenges in microinsurance, most of which are linked to distribution.

Many of the lessons in efficiency that the microinsurance market must learn out of necessity, are applicable and can be leveraged in the traditional insurance market as well—an added benefit beyond a contribution to the bottom line and building market share.

Figure 2:
Microinsurance Challenges and Solutions

Insurance challenge	Technology	Example application
Lack of information on low-income customers (e.g., fewer with formal identification, formal employment, asset ownership, etc.)	Alternative/big/digital data allow for improved knowledge of customer. Artificial intelligence (AI) and machine learning Digital communication	Using mobile call data, social network interactions, sensors, or retail purchase history to inform risk profile/premiums Use of predictive analytic models in early stages Use of car sensors, wearables to increase real-time access to high volumes of data
Customers beyond current reach (low-income people are informally employed, often rural, and largely unbanked, and beyond the reach of traditional channels like branches, agents, and employers)	Technology-enabled partnerships with mobile network operators (MNOs) Digital platforms	Technology has facilitated partnerships with aggregators beyond traditional channels, in particular mobile insurance platforms Accessing platforms, point-of-service (POS) devices, tablets, laptops, and mobile phones makes sales and servicing accessible from almost any location
Different and new customer needs (e.g., manner and timing of premium collection and claims payments, documentation required, and appropriate types of coverage)	Peer-to-peer (P2P) platforms that explicitly adapt to needs of specific groups	P2P platforms offer group-specific covers, such as divorce cover, and the members can collectively decide on terms and rules for servicing Bundling a health insurance product with access to a doctor or nurse hotline, periodic health tips, and access to health loans
Consumers inexperienced with formal financial services (in particular insurance, as well as generally lower literacy levels)	Digital platforms can provide interactive, tailored advice Real-time data analytics	Use of USSD and SMS text messaging, icons, and chat boxes to provide more information and guidance through the insurance processes Monitor and respond to consumers in real time, identifying when consumer interactions are needed
Constrained business models (low-cost premiums require high-volume sales)	Digital platforms that allow bundling with services beyond insurance	Use of digital payment channels to collect premiums and pay claims Use of blockchain to verify transactions Use of satellite data to verify claims

Source: Authors' summary of: Smit, Herman, Cat Denoon-Stevens, Antonia Esser. InsurTech for Development: A Review of Insurance Technologies and Applications in Africa, Asia, and Latin America. Cenfri, March 2017. See http://www.microinsurancenetwork.org/sites/default/files/Cenfri%20InsurTech%20for%20Development%20Research%20Study.pdf.

Microinsurance is no panacea on its own, and requires a paradigm shift from insurers—and especially their actuaries—to understand and address proportionately the real risks and needs of the low-income market, and to design, offer and service SUAVE products. Making that shift and commitment may be the key to unlocking the insurance market of the future.

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ENDNOTES

1 VIX is a volatility index developed by the Chicago Board Options Exchange that tracks the implied volatility based on the prices of options on the S&P 500 index.

2 The VIX is used as the implied volatility for simplicity. In reality, the implied volatility varies by option type (call or put), term of the option contract and the level of exercise price (in-the-money/at-the-money/out-of-the-money option).

3 Here ROI is the internal rate of return (IRR). It is the discount rate that makes the NPV equals to 0.

4 Koven, R.C. & McCord, M.J. (October 1, 2014). Is there a business case for microinsurance. Best's Review. Retrieved July 31, 2017, from http://www.microinsurancecentre.org/resources/documents/business-case-for-microinsurance/is-there-a-business-case-for-microinsurance.html.

5 McCord, M., Biese, K., & Sarpong, M.M. (2014). The Landscape of Microinsurance in Latin America and the Caribbean 2014: A Changing Market. Luxembourg: Microinsurance Network; and Biese, K. & McCord, M. (2015). The Landscape of Microinsurance in Africa 2015. Luxembourg: Microinsurance Network.