

# Microinsurance Workshop

## Insurance for emerging consumers: how to serve the market in a viable way



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# End game = impactful insurance

- Quality
  - Equity
  - Scale
  - Viability
- 
- Insurance that works for both providers and clients (households, enterprises and governments)



**What are key obstacles  
to achieve impact  
insurance?**

# Key obstacles to achieve impact insurance: a market failure



- Client: trust, understanding, capacity to pay, behaviours & priorities



- Provider: capacity, incentives and structures



- Environment: regulation, payments and premium collection, data...

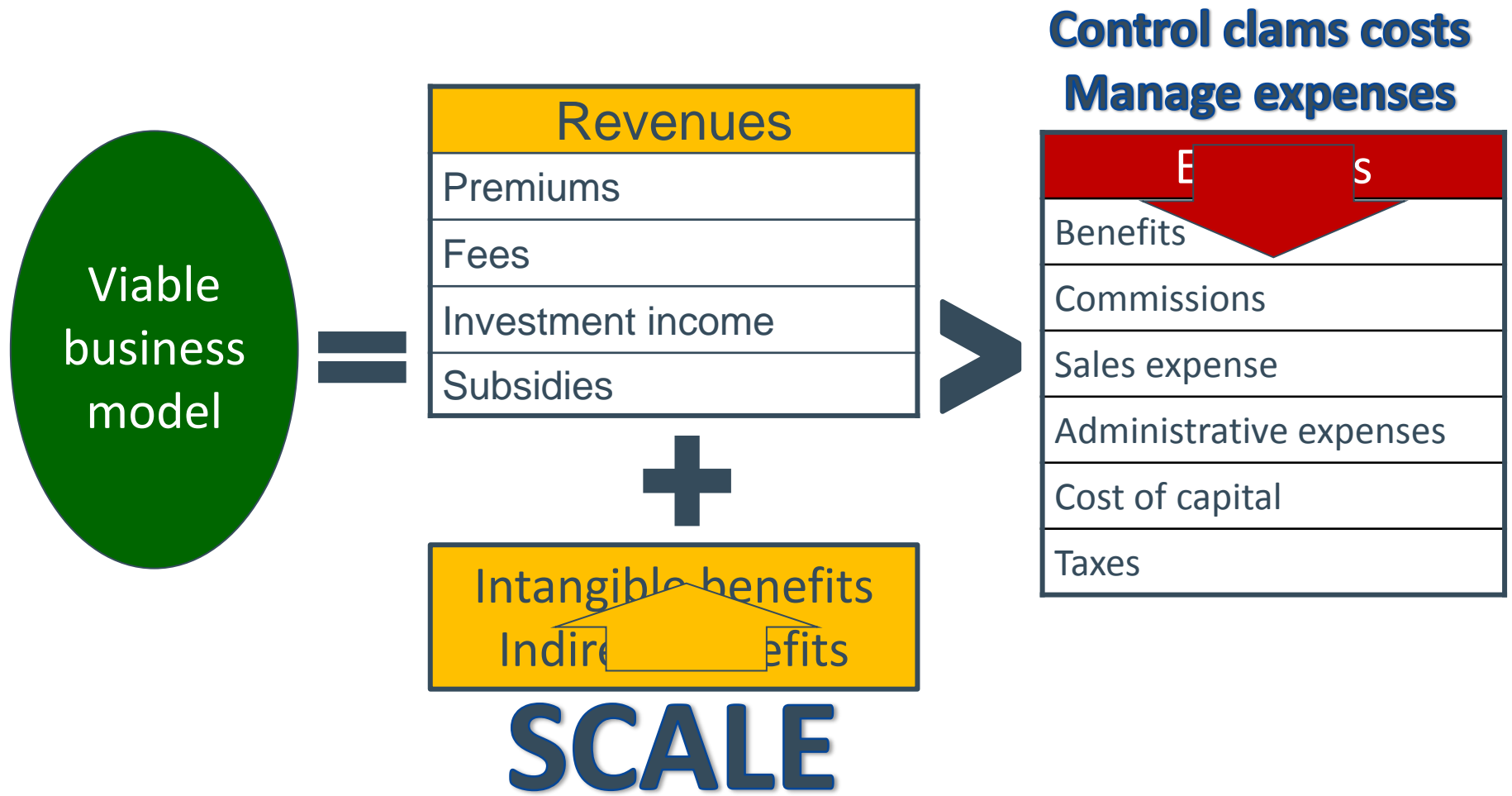


# Key insights to start with

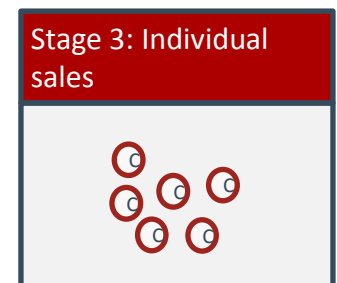
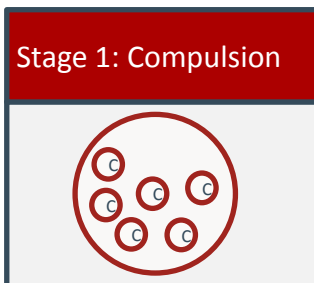
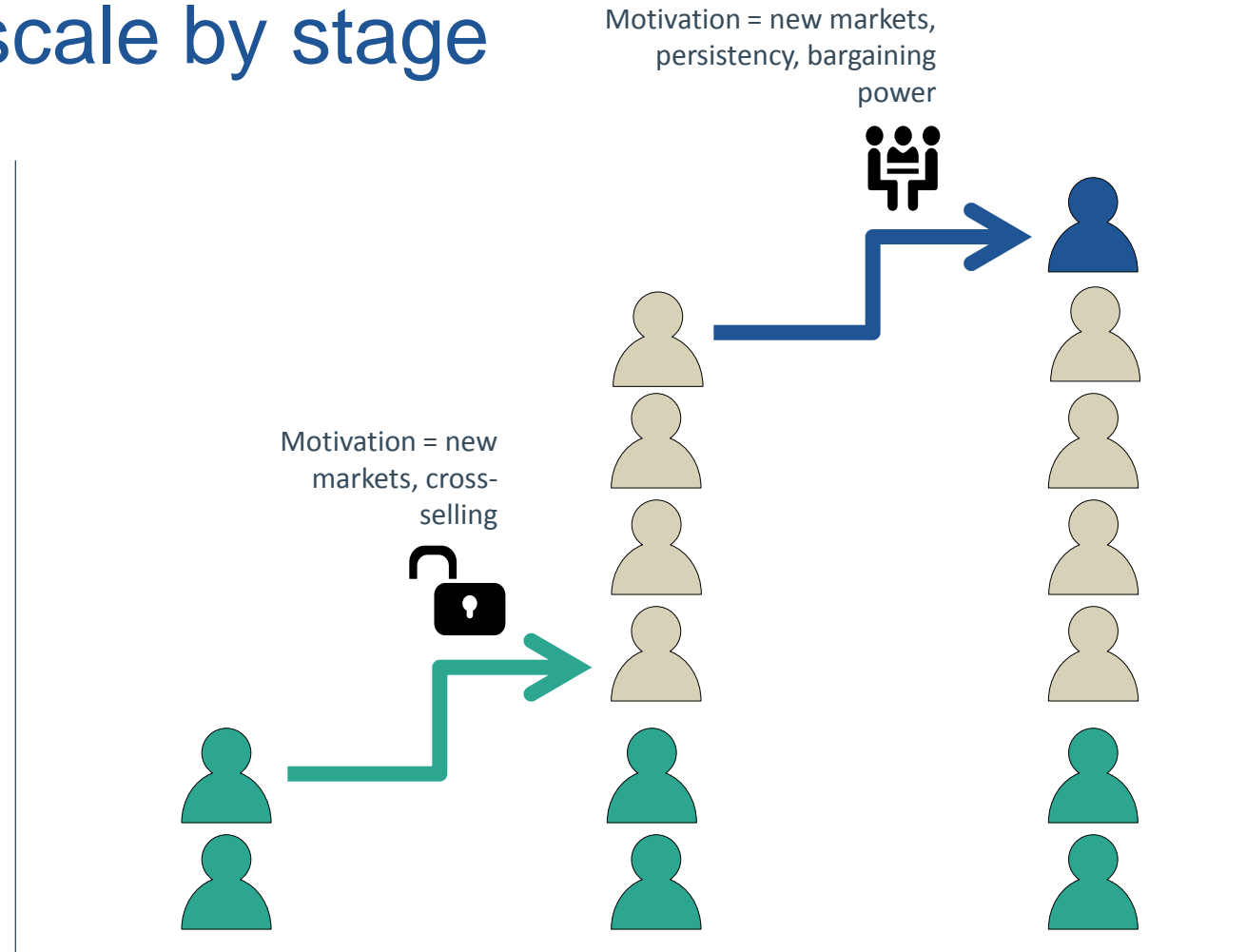
- Simple, mandatory, bundled products can offer client value and be viable only if providers excel at access and experience
- Comprehensive solutions, especially in agriculture and health, are difficult without government involvement
- Scale is key for viability
- Distribution can only work with aligned incentives, strong brand, technology, partnership management and sales force development support
- Market development stage matters

**Given obstacles and insights, what should be a viable business strategy?**

# Viability framework

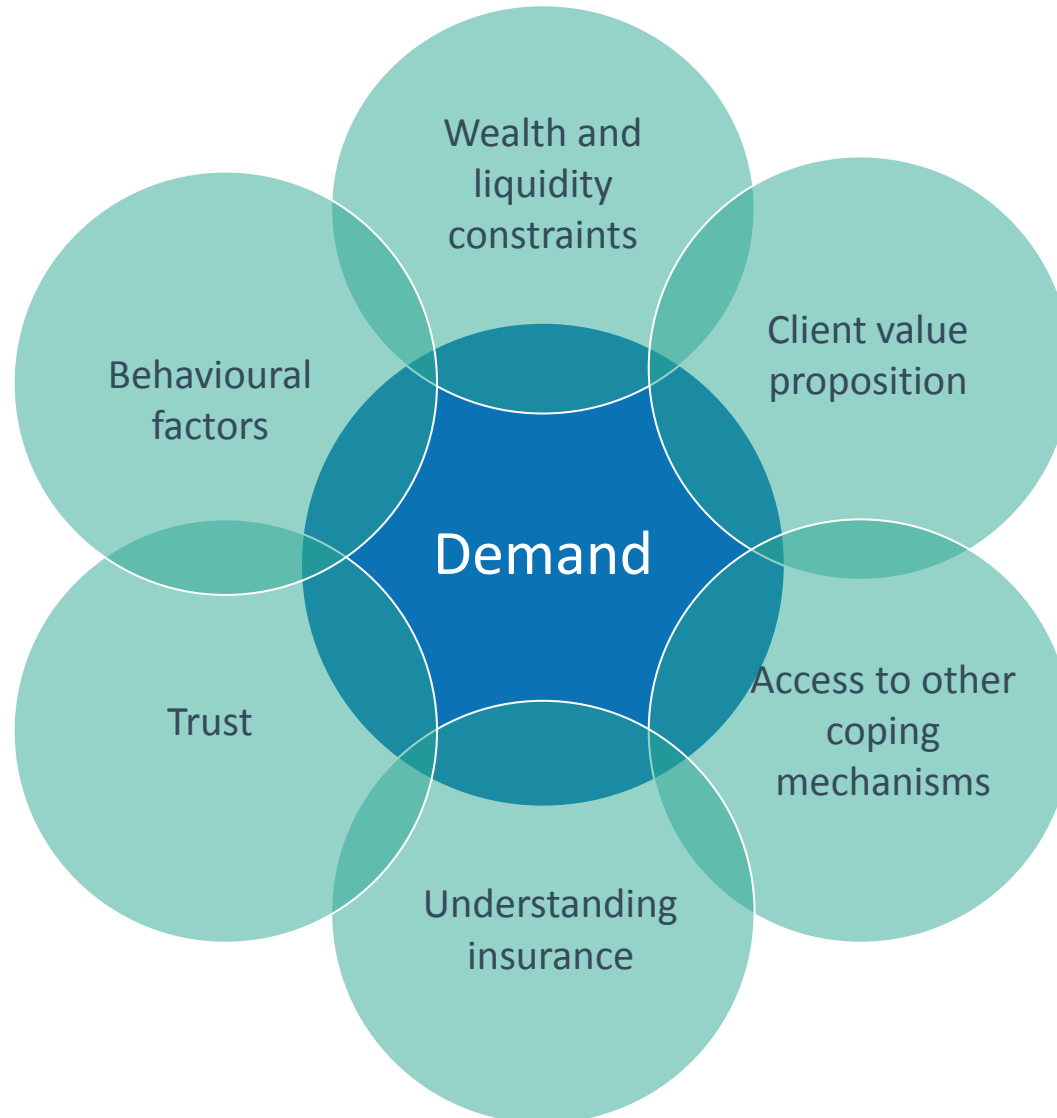


# Drivers of scale by stage



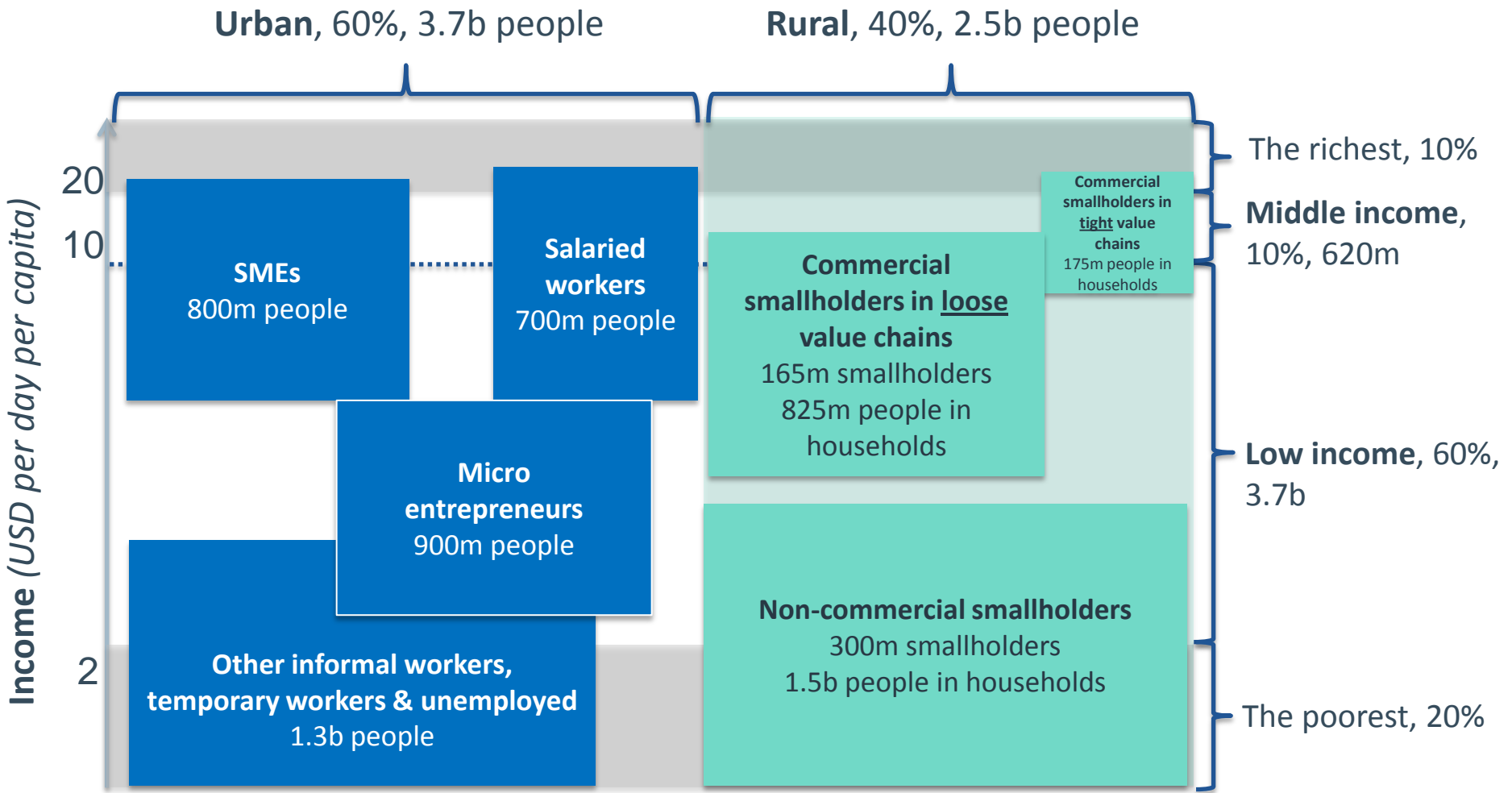


# There is a strong need to understand the demand for insurance



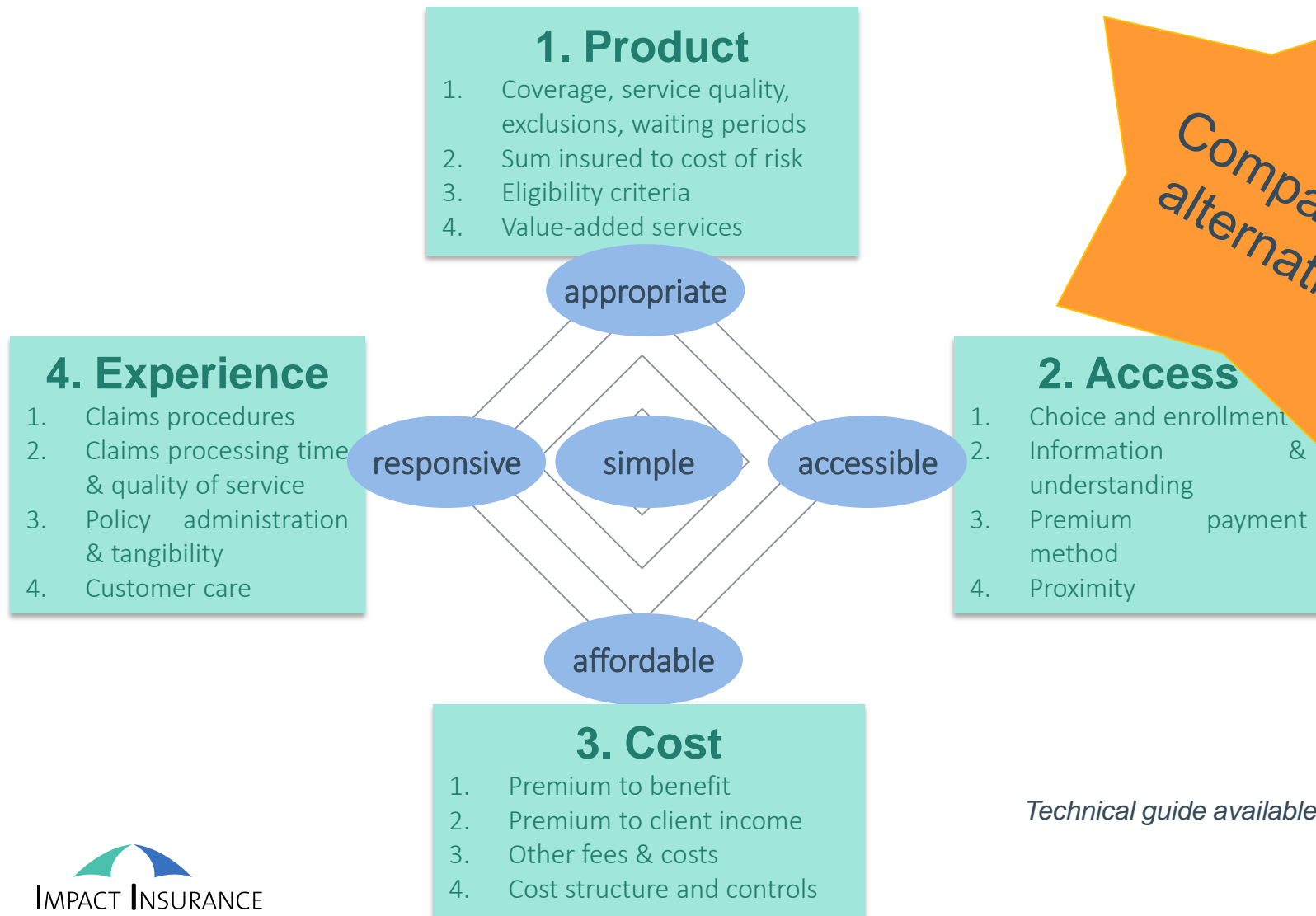
# Market segmentation to focus on strategic segments

(only low and middle income countries, 2015-2020, total population 6.2b)



# Think holistically about how to improve value

## PACE framework: embracing many dimensions of value



Technical guide available at our website

# Informal mechanisms help with some risks but fail to deal with other risks *(depending on the context)*

- Isaac's wife had gone to the hospital and was diagnosed with an aggressive throat tumor; it would cost USD 260 (NGN 38,800) to remove
- They felt they couldn't afford that and believed it was caused by someone bewitching her
- They resorted to traditional medicine, but it did not help
- She died and the burial cost USD 58 (NGN 22,000)
- The social network worked but imperfectly

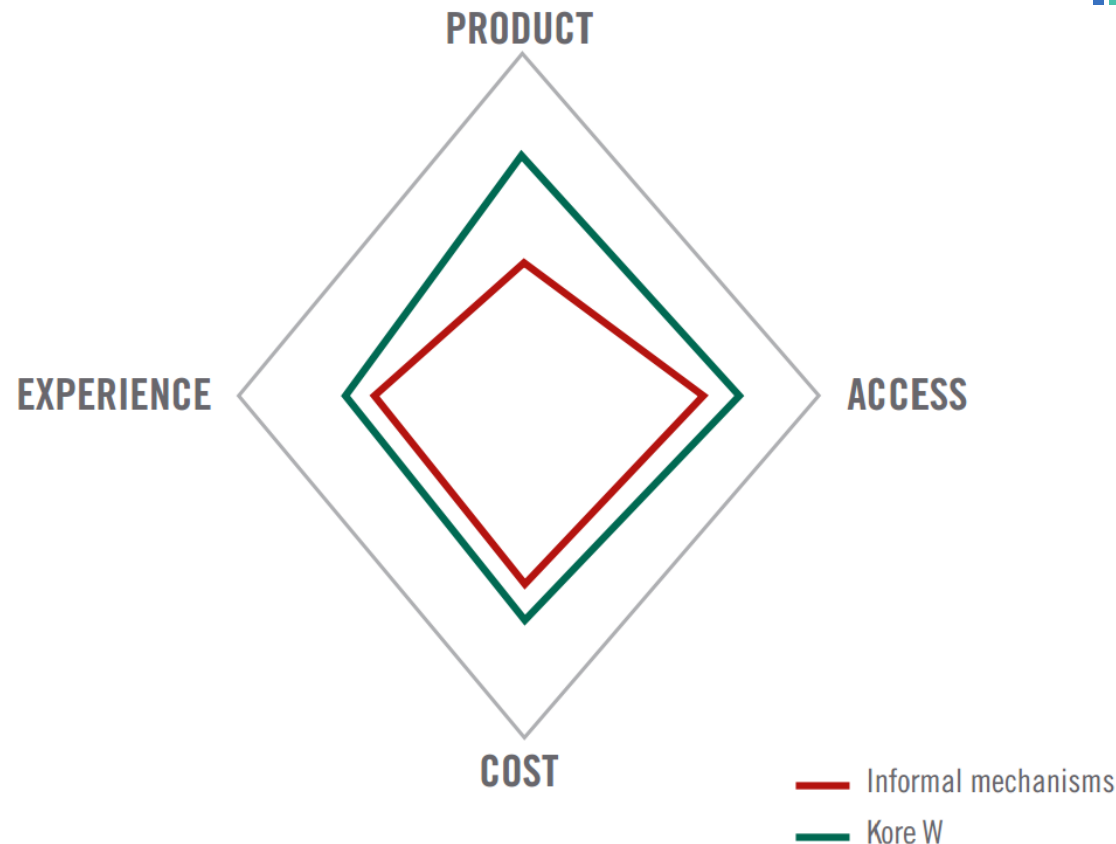
SOURCE	Costs
Borrowed from brother-in-law	USD 57 (NGN 21,660)
Goat borrowed from neighbor	USD 175 (NGN 66,500) In Kind
Contributions from family and friends	USD 260 (NGN 98,800)
Total	USD 492 NGN 189,960

38% of households postponed healthcare during a year

# ***Solution:*** partial coverage is still useful provided that it is complementary



- Natural disaster cover compulsory for all borrowers
- 3% of loan amount for loan cancellation, USD 125 (NGN 47,500) indemnity payout and access to new loan
- Hybrid index-indemnity design to manage basis risk
- Decentralized claims assessment and customer education
- 60,000 clients covered (end 2012); drop-out rate decreased from 22% to 10%



...and provided that Access and Experience preferences are met



## Access & understanding

Enrolment  
Client education



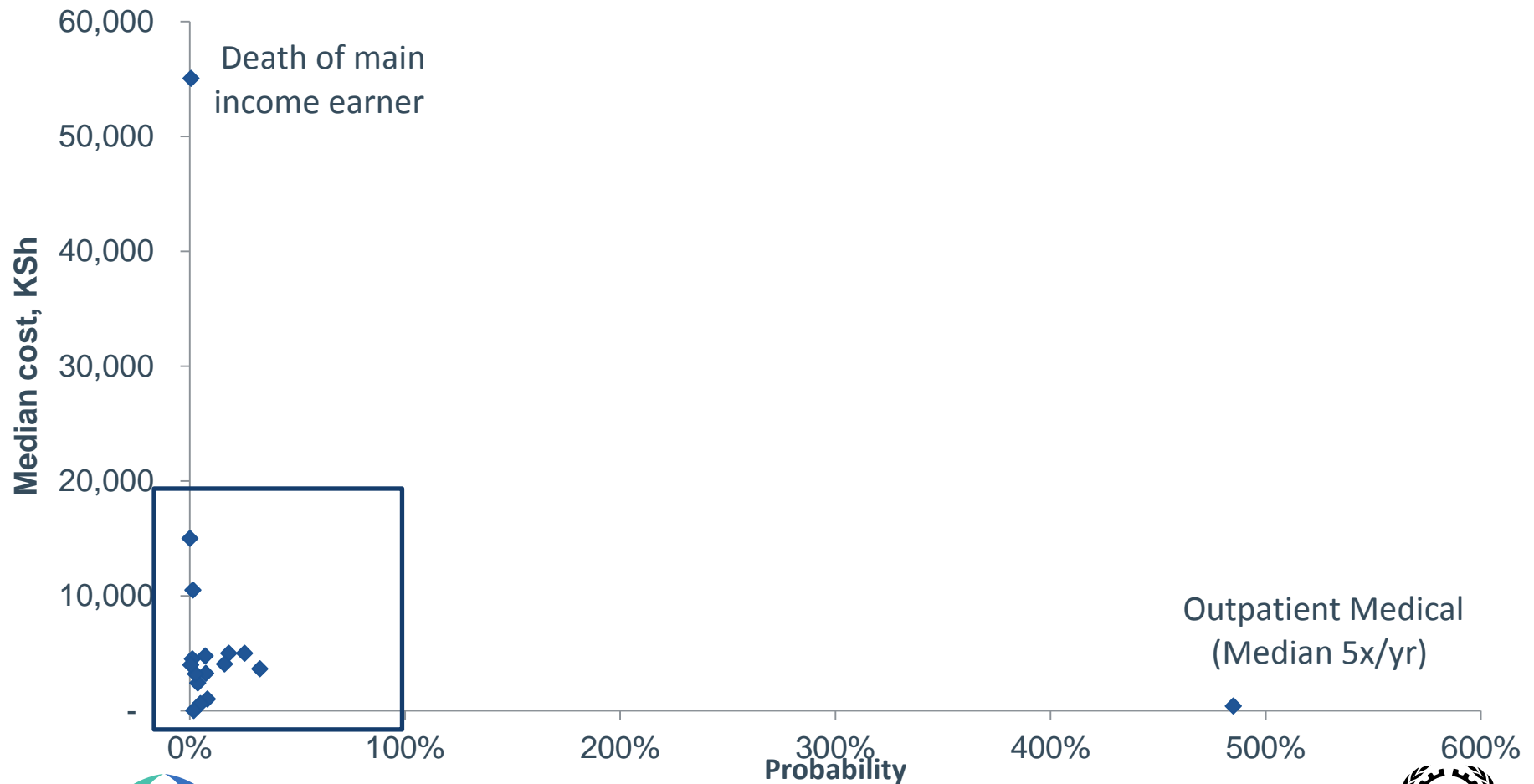
## Positive experience!

Claims  
Servicing



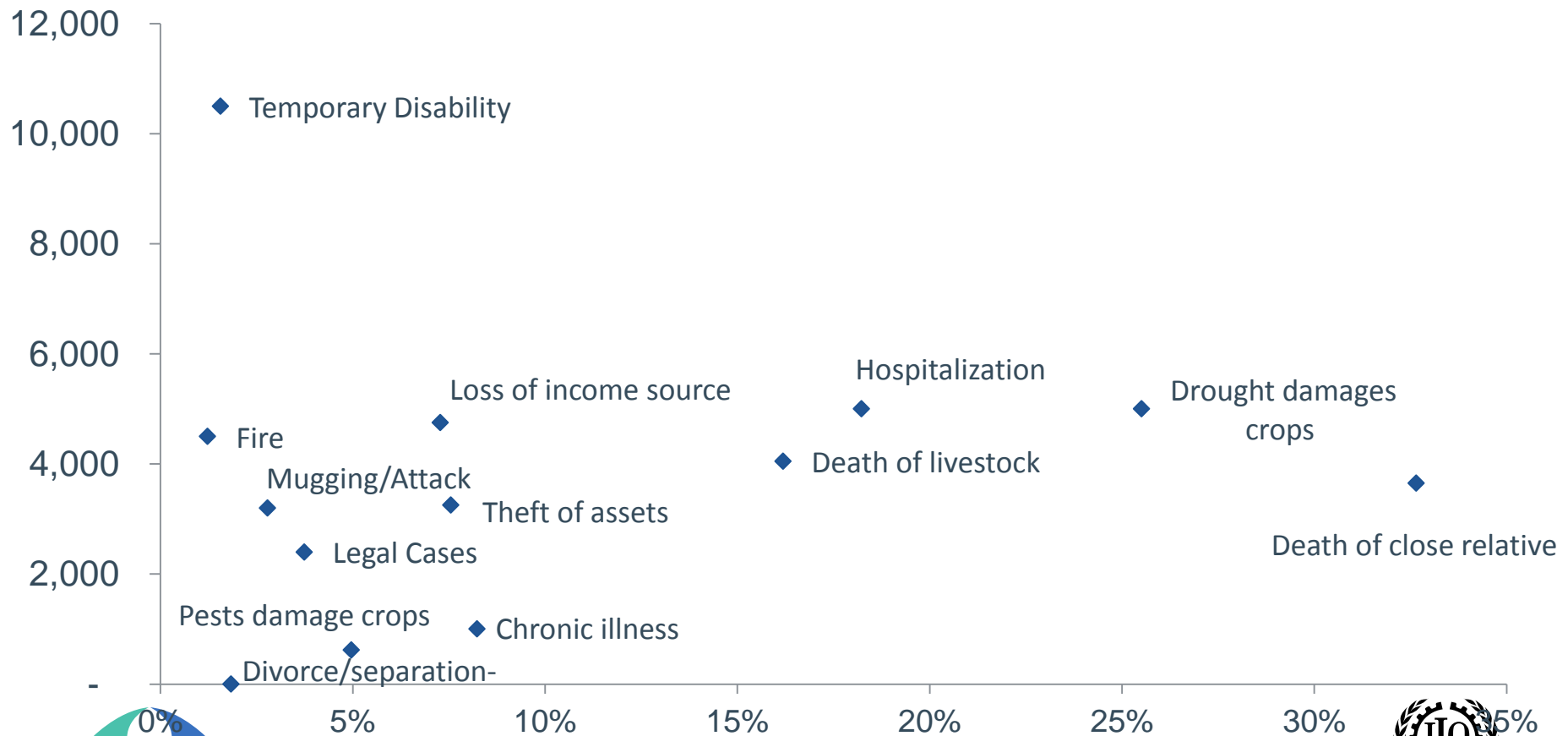
# Emerging consumers face large number of low probability, low cost risks (1)

Frequency (Probability of experiencing in one year) & Severity (Median Cost, KSh)



# Emerging consumers face large number of low probability, low cost risks (2)

Frequency (Probability of experiencing in one year) & Severity (Median Cost, KSh),  
Excluding Outliers

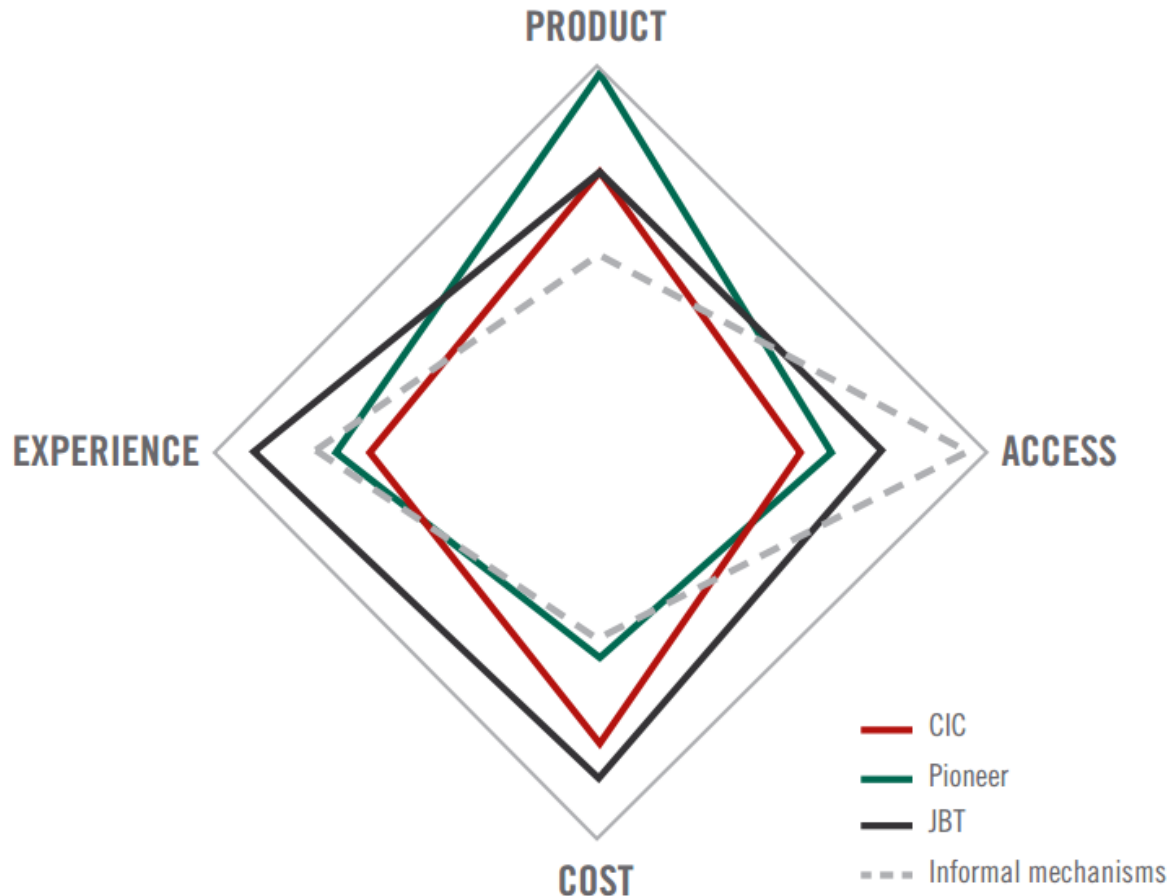


# ***Solution:*** composite covers ...only if you are ready for it

## **CIC, Bima ya Jamii**

*(launched 2007)*

- Voluntary, composite product (in-patient health, funeral, hospital cash)
- 8,300 lives (2010), discontinued in 2011
- Too complex with limited education; complicated enrollment and claims documentation



**Impact insurance is a  
long-term game and  
can be only achieved  
through a sequenced  
business strategy**

**So what does it mean  
for you?**

# Tea value chain in Kenya

- 80+ tea factories, 700,000 tea pickers and 560,000 tea farmers that provide for almost 5 million Kenyans
- Affected by weather and market price risks





# Tea estate pickers

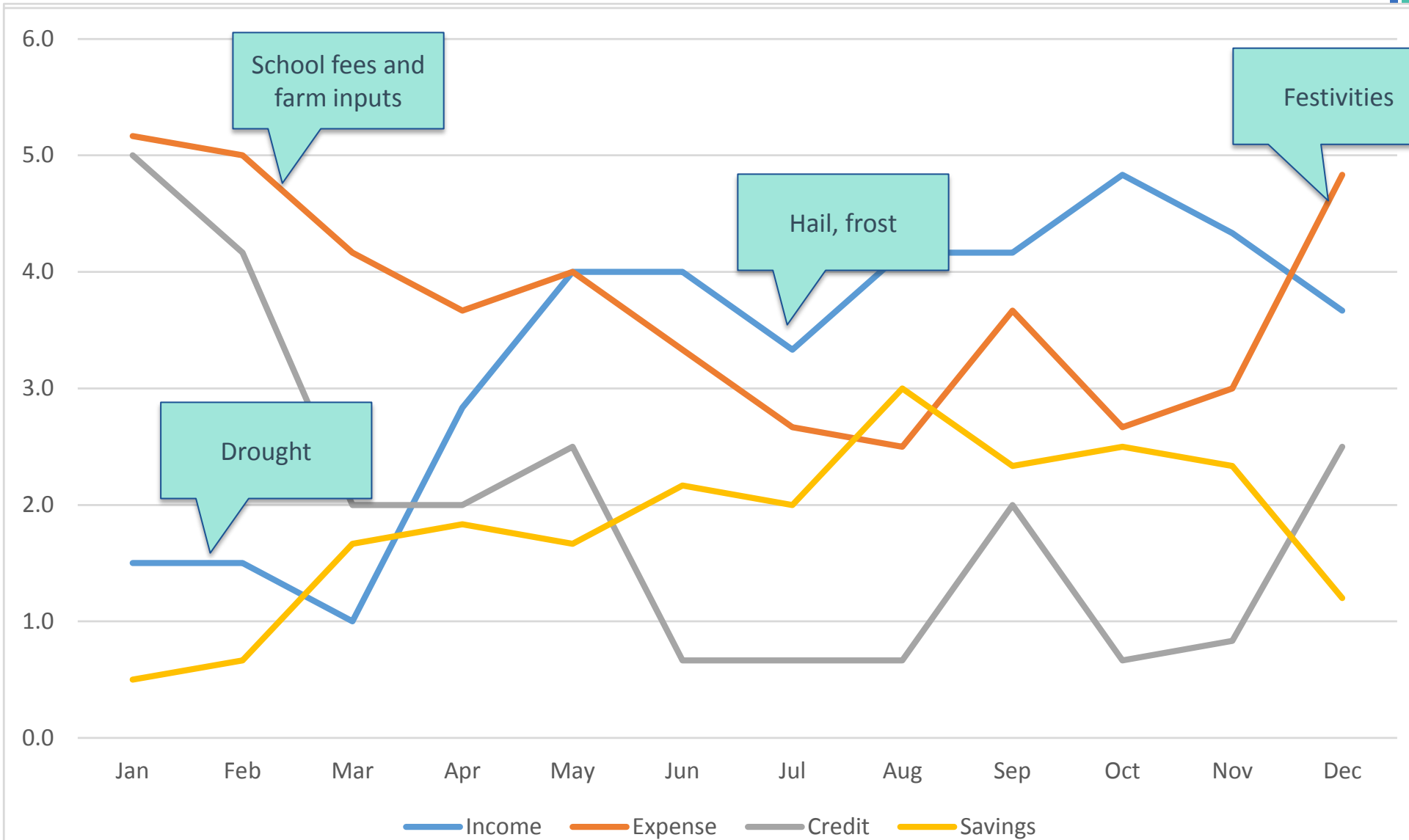
- Employed by factory
- Average monthly revenue from tea: KES 7,000 (NGN 22,000)
- Free housing, basic healthcare, primary education

# Tea farmers

- Average land-holding: (0.25-2 acres)
- Average monthly revenue from tea: KES 7,500 (NGN 24,000)
- Limited diversification



# Seasonality



# Problem

How to explain and build trust with a new, complex concept...

to a person with limited insurance literacy, who is unlikely to pay today for a benefit in a distant future





# Potential solution

**Individual savings  
accounts for farmers to  
cope with smaller  
weather risks**



**Insurance for factories  
against production loss  
due to weather and  
price volatility**

# Customer journey

**Factory buys portfolio cover**

Its farmers and pickers sign up for savings product

Specified savings amounts are deducted from monthly tea payments

Farmers receive monthly payment confirmations and can check their balance on USSD; savings are locked

When small weather event happens farmers can access their savings

When large weather event happens, factory gets portfolio payout and share some of it to farmers savings accounts

Farmers can ask questions to local agents; and change their savings amount on USSD

(in the future) farmers can access other insurance products through the same agents and mobile platform



**What are critical  
success factors for  
insurer in this case?**



# Bundling makes insurance tangible and can improve value for all!



Better outcomes for  
**clients:** access to  
credit, additional  
services, better price



**Insurers:** trust of  
the market, higher  
scale and renewals,  
lower costs



**Distributors:** higher  
customer loyalty,  
enhanced core  
business, commissions

# Valuable insurance solutions develop through gradual improvements (1)



Start simple and 'safe'

Build trust by creating positive experience

Let people appreciate and learn about insurance without spending much

Build on it with more comprehensive insurance solutions

*Market development level, capacity of clients/providers/governments, enabling environment*

# Valuable solutions develop through gradual improvements (2)



CLIS, Philippines  
5 m

Hollard, S Africa  
5 m

RSBY, India  
100+ m

MicroEnsure, various  
20 m

Simple, mandatory/  
embedded products

Distribution  
partnerships (brand)  
for group, voluntary  
products

Positive client  
experience  
& *quick scale and  
break-even*

Technology/agent-  
enabled individual  
sales

Better client  
understanding,  
segmentation &  
*cross-selling*

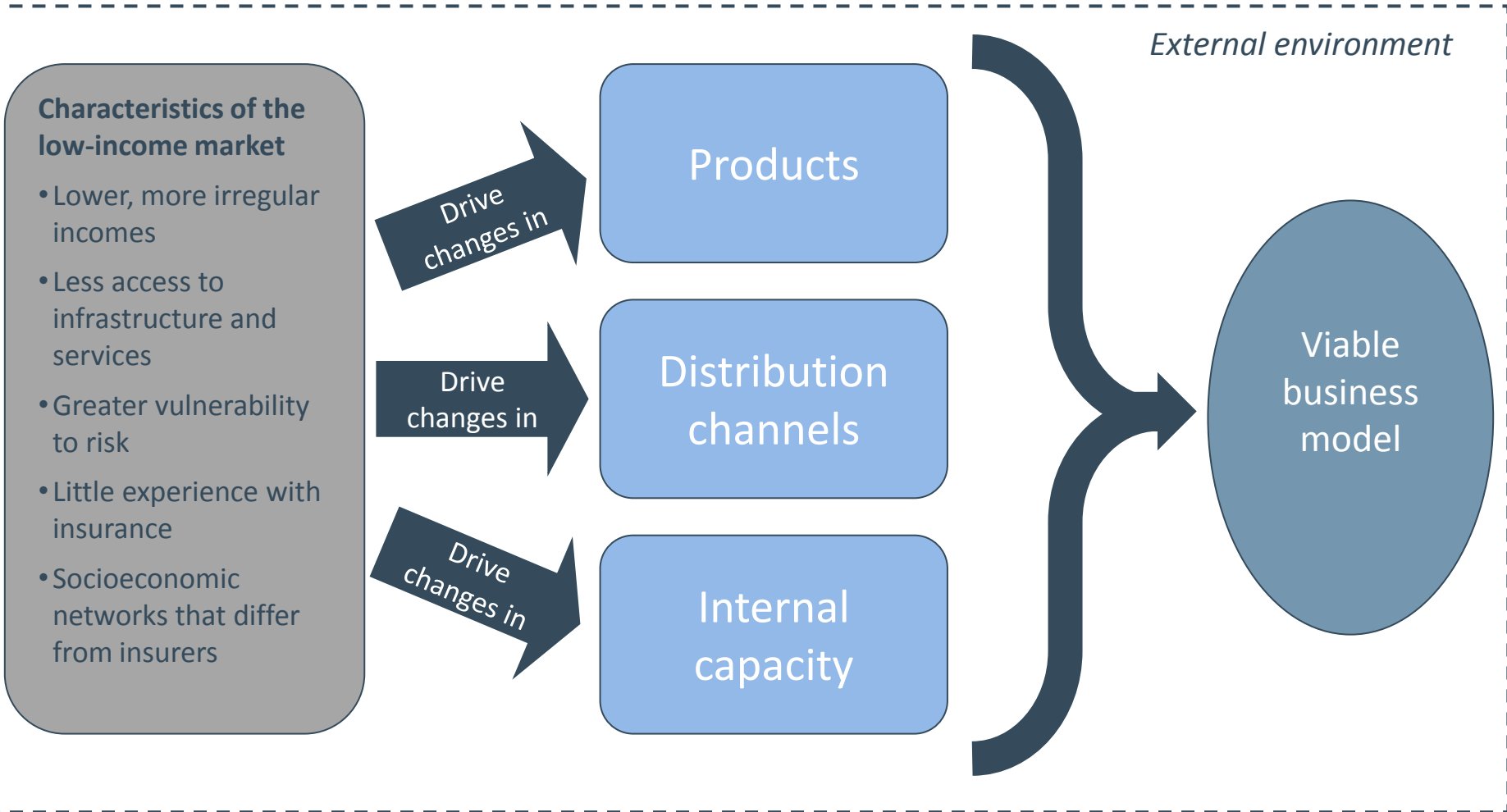
PPPs for health,  
agriculture and  
catastrophic  
insurance

Choice for clients &  
*experienced 'niche'  
insurers*

UHC, more food  
security, resilience &  
*persistent insurance  
business*

Market development level, capacity of clients/providers/governments, enabling environment

# Making Microinsurance Work



# Challenges

## Organizational development

- Only part of someone's job
- Standard targets, incentives
- No solutions to overcome institutional inertia

## Partnerships and distribution

- Relying on agents and brokers
- Not designing mutually beneficial partnerships with alternative distribution channels
- Not managing the relationship

## Business model

- Expecting fast results, impatience
- Optimistic projections regarding uptake and renewals
- Standard corporate overhead costs

# Challenges (continued)

## Product design

- Off the shelf with a smaller sum assured
- No market research, don't know target market's needs and preferences
- Complications and exclusions
- Lumpy premiums, due at the wrong time
- Not making the intangible tangible

## Consumer education and sales

- No information for mandatory products
- Marketing without education
- Insufficient training and incentives for sales staff
- Prioritizing new sales instead of renewals

## Claims

- Rejecting claims without public relations backup
- Delays in paying claims



# Success factors for viable strategies

- Think long-term & sequence along with market development
- Embrace customer-centricity and target strategic segments
- Embed, mandate and bundle
- Select and manage distribution partnerships for future growth
- Excel at technology-driven processes & focus on creating positive customer experience
- Watch out for PPP opportunities
- Create a vision and follow through with change management
- Build an internal business case through data-driven pilots



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# Thank you!



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