

# THE STATE OF MICROINSURANCE

THE INSIDER'S GUIDE TO UNDERSTANDING THE SECTOR

ISSUE NR 2 - 2016

MICROINSURANCE NETWORK'S ANNUAL MAGAZINE



## Insurance & capital market development:

What Sub-Saharan Africa can teach us?



## A dialogue on Universal Health Coverage

## Benchmarking in microinsurance:

The why and the how



## Behavioural economics:

The irrationality of clients

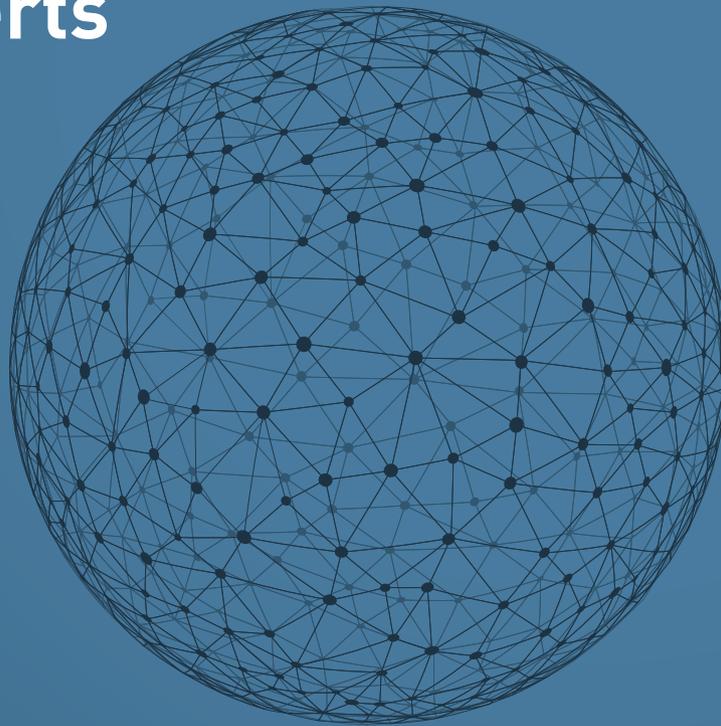


With insights from Cenfri - MicroInsurance Centre - BRS - ADA - Abt Associates - RIIA - A2ii - MicroEnsure - Acting for Life - Nordic Consulting Group - ILO's Impact Insurance Facility - Democrance - RisKnoT - Swiss Re - MicroSave and MILVIK (BIMA)

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# 12<sup>th</sup> International Microinsurance Conference 2016

15-17 November 2016

Cinnamon Grand Hotel, Colombo, Sri Lanka

## Driving growth and sustainability – A business case for microinsurance



The 12<sup>th</sup> International Microinsurance Conference will take place in Sri Lanka from 15-17 November 2016. Approximately 400 participants and experts from around the world will discuss and identify ways of accelerating growth and economic viability in microinsurance. The conference will be hosted by IASL in cooperation with the Munich Re Foundation and the Microinsurance Network.



# Note from the Executive Director at Interim

By Henk van Oosterhout



**Henk van Oosterhout** is the Interim Executive Director of the Microinsurance Network (March – September 2016)

The newly established Expert Forums organised by the Secretariat have witnessed a high level of registration. If the number of participants to these forums is a measuring rod of what moves the microinsurance sector, the business case is gauged as one of the most prominent items that interests insurance companies, consultants and the donor community. The first editions of this new service of the Microinsurance Network dealt with the microinsurance landscape of Africa and were oversubscribed several times. During these Expert Forums, depth and outreach of the microinsurance sector in Africa were discussed, as well as improving trends in covering all expenses such as administrative costs, distribution or commission costs, and claims compared to premiums received. Furthermore, the debate on using new distributions channels such as Mobile Network Operators, as well as the importance of regulation and supervision, are important themes in the microinsurance sector.

There are indeed encouraging developments and innovations in the distribution of products, using alternative channels and bringing together new partners. These innovations overcome some of the difficult and persistent barriers in bringing microinsurance closer to the business case whilst simultaneously bringing these services within reach of many unserved people. Other innovations, making insurance services available to the grassroots, are through utility bills or bundling with other financial services or agricultural inputs. Furthermore, in order to reduce administrative costs, technology that streamlines claims validation has pioneered, such as for index-based insurance, leading to the point that microinsurance is more than just part of the corporate social responsibility, but that it is actually a (future) business model.

Microinsurance therefore adds another sustainable tool for the poor and low-income people in managing risks. However, microinsurance is more than identifying and quantifying risks, setting the correct premiums and making sure of a swift payout when calamities occur. Microinsurance is also reducing

risk of the clients and a reduction of risk is as much part of the business model as managing risk. After all, reducing risks means that the claims ratio is reduced. At the same time, reducing risks is a prime development dimension and donors and governments in the developing world are more interested in co-funding projects that reduce idiosyncratic and common risks of the unserved people.

Before you is the second issue of the State of the Microinsurance (SoM). The reactions following the issue of the first SoM were overwhelmingly positive and I am convinced that the readers will highly appreciate this issue as well, covering a wide variety of topics and issues, from examples of successful distribution channels to index-based livestock insurance, as well as lessons learned supporting regulatory change in Latin America and the Caribbean.

This issue features, for the first time, a dialogue between two prominent health specialists on the topic of Universal Health Coverage and private health insurance. It also features an analysis of microinsurance in the light of behavioral economics, thus stressing the (ir)rationality of clients with respect to microinsurance and the importance to understand customers' behaviour (albeit not the only success factor) when designing and marketing microinsurance products. Furthermore, the importance of benchmarking is highlighted, with the possibility of comparing an institutional performance against that of peers and targets, and the opportunity it offers to learn from one another.

This year's issue further includes a number of interviews with knowledgeable experts in the field featuring Swiss Re, Democrance, RiskNoT, BIMA and MicroSave.

In short, I am convinced that this second issue of the State of Microinsurance will give you "food for thought" and I hope that it will lead to even better results in embracing new clients at the bottom of the pyramid, offering them a wide variety of microinsurance products and, at the same time, reducing the risks they are exposed to. ■

# Breaking free to fund the growth frontier – the link between insurance and capital market development in Sub-Saharan Africa

By Doubell Chamberlain and Wicus Coetzee



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at the Centre for  
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of Directors

## Insurance matters for capital market development – or does it really?

Does insurance matter for welfare and growth? Within the microinsurance discourse, the answer to this question is usually considered from the **risk mitigation** point of view: By helping people to mitigate risk, it makes them more resilient, thereby impacting on household welfare<sup>1</sup>. Then there's also an **intermediation** role. By acting as institutional investors, insurers aggregate domestic capital and mobilise it into long-term investments. Thus, it is commonly assumed that insurance strengthens capital market development for growth.

**But what if it is not so straightforward?** Recent research conducted<sup>2</sup> on the link between insurance and capital market development across fifteen Sub-Saharan African countries<sup>3</sup> highlights that this link should not be assumed. Insurance and capital markets alike are underdeveloped. The region includes countries with among the lowest insurance penetrations in the world (for example Nigeria at 0.3% premium to GDP and Ethiopia at 0.5%), as well countries that compare well with even developed markets, such as South Africa. When disregarding South Africa, overall insurance penetration is only 0.9% of GDP – the lowest of all regions in the world.



**Wicus Coetzee,**  
Research Analyst,  
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Debt markets are by and large dominated by short duration government securities. Corporate debt markets are mostly non-existent, and when they do exist they are generally small, illiquid and built around a few issuers. Equity markets are concentrated in South Africa, Nigeria, Kenya, Mauritius and Zimbabwe.

Overall, **insurance markets in Sub-Saharan Africa are not naturally evolving to serve what seem to be clear and significant capital needs. Why is that? And what can donors and governments do to strengthen the link?**

This question cannot be answered by considering the region as one homogenous market. It requires a step back to consider the stages of market development that countries are at.

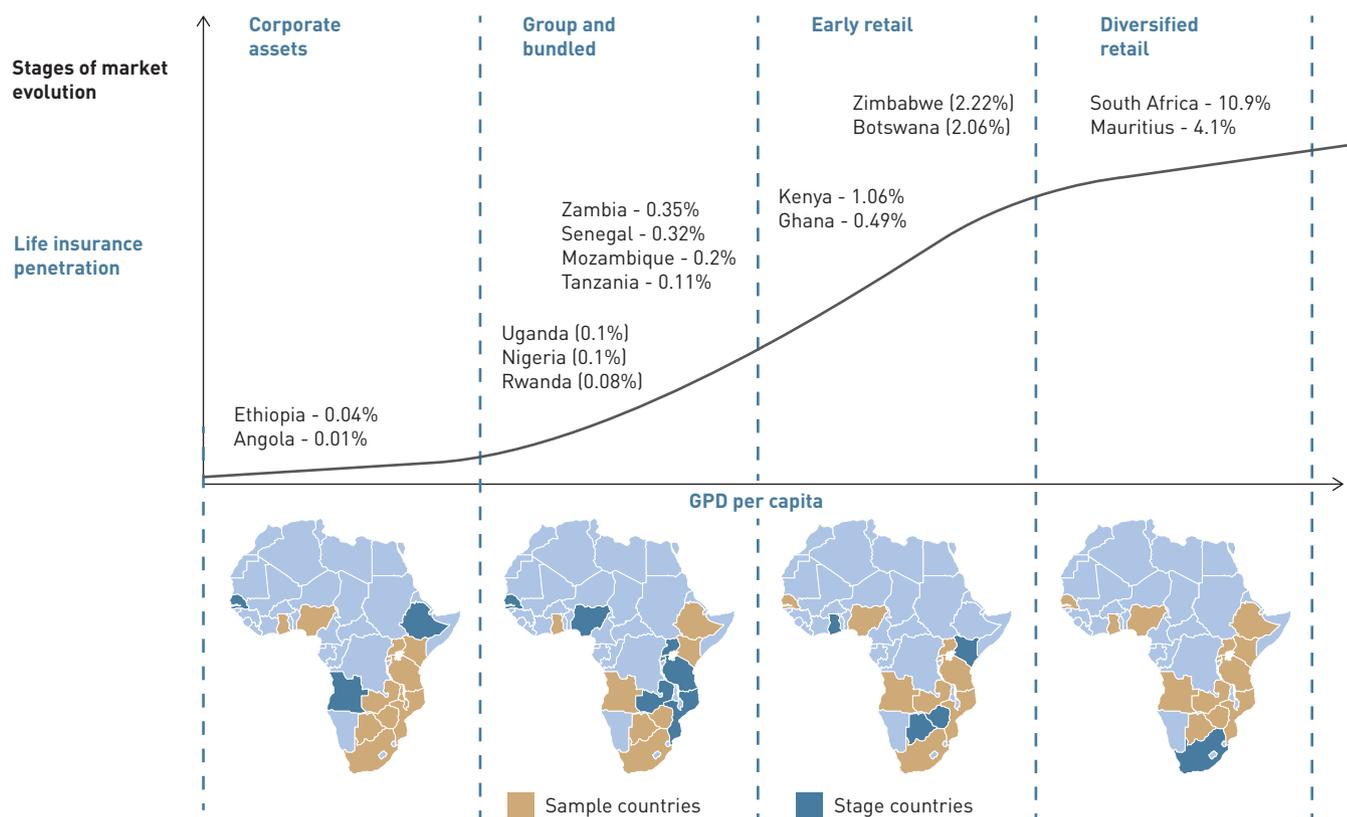
## Four stages of insurance market development

The fifteen countries analysed are classified into four stages of insurance market development, with a corresponding progression in the investment strategy followed.

The stages are strongly correlated with the level of income in the country as well as the level of development in the retail life insurance market. The stylised progression presented in Figure 1 is as follows:

- <sup>1</sup> Furthermore, the presence of insurance can help to trigger markets for important services (such as credit and medical services).
- <sup>2</sup> Research done by Cenfri for Financial Sector Deepening Africa (FSDA). The study drew on extensive desktop research and a range of stakeholder consultations, globally. Publication is forthcoming.
- <sup>3</sup> The sample is: Angola, Botswana, Ethiopia, Ghana, Kenya, Mauritius, Mozambique, Nigeria, Rwanda, Senegal, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. The sample makes up approximately 87% of total SSA premiums and represents a diversity of markets and sub regions in SSA in terms of level of development, political and economic stability, population, affiliation to regional initiatives, and level of development of financial markets.

Figure 1: Stages of insurance market development



Source: authors' own, based on Dickinson (2000), OECD (Unknown) and Lester (2009)<sup>4</sup>

- **Stage 1: Corporate assets.** In this first stage, corporate asset insurance dominates the market and distribution is broker-driven. Retail insurance is limited and life insurance has a small share in total premiums. Total insurance penetration is below 1% of GDP. Insurers typically invest in real estate and bank deposits and, subject to local investment requirements, place much of their investments offshore. They have limited balance sheets and reinsure most of their business abroad.
- **Stage 2: Group and bundled.** In stage two group-based, compulsory and bundled retail insurance emerges alongside corporate asset insurance. Thus there is rapid growth in the number of individuals covered, but with limited types of insurance cover offered on a compulsory or embedded basis and driven by the needs of aggregators used for distribution

purposes. Typical examples are compulsory credit life or third party liability vehicle insurance. Furthermore, recent innovation has seen mobile insurance dramatically extending the reach of insurance through embedded and "freemium" products aimed at securing client loyalty for mobile networks and incentivising airtime purchases.

Retail distribution infrastructure remains limited, as distribution is achieved through negotiations with large aggregators rather than individual sales transactions. Due to the compulsory or embedded nature, consumers are often unaware of their cover. As in stage one, insurance provides mostly risk cover, with very little contractual savings. Brokers still play a prominent role, now also signing up group-based retail insurance. The share of life insurance in total premiums grows, but remains below 30% in the sample countries.

<sup>4</sup> Dickinson, G., 2000. *Encouraging a dynamic life insurance industry: Economic benefits and policy issues*, Riga: OECD.  
 OECD, Unknown. *Developing insurance markets in economies in transition*, s.l.: OECD.  
 Lester, R., 2009. *Introduction to the Insurance Industry*, Primer Series on Insurance; Issue no. 1. Washington, D.C: World Bank


  
**Unlocking  
the role of  
insurance in  
capital market  
development  
requires an  
understanding  
of the barriers  
to insurance  
development**
  


Overall insurance penetration is still below 3%. Where the typical investment portfolio is concerned, insurers begin to also invest in government securities, although this is marginal. Bank deposits and real estate remain the main investments.

- **Stage 3: Early retail.** At this stage, limited individual retail insurance – mostly funeral insurance – begins to grow, and along with it agent-based sales. In the sample countries, insurance market penetration tends to break through the 3% barrier, but remains below 5%. Contractual savings are starting to emerge alongside risk cover, meaning that the industry's liabilities are becoming more long-term. Life's share in total premiums now typically ranges between 30% and 75%. Insurers invest more heavily in government securities, but bank deposits and real estate remain prominent investments.
- **Stage 4: Diversified retail.** In the final stage, there is a diversified individual retail market and a developed contractual savings market, with agent-based, direct and alternative distribution sales alongside broker sales. In the sample countries, life insurance now represents 75% and upwards of total premiums and penetration is 5% of GDP and beyond. Insurers have longer-term liabilities and invest in a full range of assets, including collective investment schemes, equity, corporate bonds and other sophisticated investment tools. Government securities now play a more limited role.

**Government and banks pull the strings initially.** It is clear from the stages overview that insurance market development does correlate with capital market development: In the early stages, insurance and capital markets alike are underdeveloped and by stage four both markets are more developed. However, insurance markets do not automatically contribute to capital market development. A key finding of the research is that in stages 1-2 and to some extent stage 3, in which most countries in Sub-Saharan Africa are located, insurers have a limited role as institutional investors in developing capital markets. Rather, government itself, via its role in determining investment requirements and as issuer of government bonds, has the strongest role in investment allocation. Furthermore, much of insurers' investments are channelled via banks. Thus governments and banks initially hold the strongest levers in driving asset allocation.

**Insurance becomes a driving force only once the retail life market is developed.** It is not until the retail life insurance market develops that the link to capital market development really

becomes significant. Once there is a strong retail life presence and the long-term contractual savings market is established, it results in asset portfolios and liabilities of increasing size and maturity. These asset portfolios then require more advanced investment instruments. This, in turn, puts increasing pressure on domestic capital market development. It is thus only once the market progresses to the latter stages (late stage 3 to stage 4) that insurers come to their own as institutional investors and drivers of capital market development. This illustrates the importance of developing the retail life insurance market in unlocking the potential of insurance as a driver of capital market development.

## What stands in the way?

There are a number of factors that prevent insurance markets from progressing from one stage to the other and hence from fulfilling their full intermediation role. Unlocking the role of insurance in capital market development thus requires an understanding of the various barriers to insurance market development. The key factors identified for Sub-Saharan Africa (SSA) are:

- **Low incomes.** Income levels in SSA are severely constrained: When taking USD 5 a day as rule of thumb for when a person becomes insurable through traditional models, more than 80% of the market would be not be viable to insure.
- **Awareness and trust.** Informal risk-coping mechanisms are preferred to formal insurance and there remains a widespread lack of awareness of insurance.
- **High levels of financial exclusion.** Insurance penetration does not leapfrog general financial inclusion. SSA has the lowest bank account take-up in the world, at 30% on average, although it varies significantly in the region.
- **Lack of infrastructure and distribution channels.** Poor infrastructure limits the number of touch points that insurers have with consumers, as well as insurers' ability to communicate with clients and receive payments. A shortage of agent networks and a skills deficit further challenge distribution.
- **Lack of domestic skills and a shortage of data.** There is insufficient data to design products and effectively regulate industry. A shortage of skills and experience also limits the industry's ability to design and roll out products.

- **Limited incentive to expand coverage.** Insurers are often profitable in the early stages of market development, with limited incentives to push development to the next stage. They serve large corporates and group schemes and a small segment of wealthy individuals. Moving to the next level requires overcoming major infrastructure and business model challenges to develop innovative distribution channels that can reach a broader and geographically dispersed population on an individual or small-group basis with lower-premium products.
- **Substantial barriers to move into individualised retail.** A particularly difficult transition point is moving from head-office-based business to a more widely distributed and diverse retail offering. At this stage, the business model and environmental impediments become particularly pronounced. The research found very little business incentive to pursue this transition, a situation that is exacerbated by uncertainties in the economic environment
- **Reforms increase regulatory burden.** Wide scale regulatory reforms across the region have resulted in higher entry barriers that are not well calibrated to the domestic market realities and stage of development. Many regulators are in the process of creating exempted spaces for microinsurance, but this process is not integrated with overall regulatory changes.
- **Regulators are not keeping pace with innovation.** Where this is the case, they risk excluding or constraining innovative models that are essential for market development. Mobile insurance, for example, has spawned many innovative models that regulators need to respond to.
- **Poor industry coordination.** There is generally insufficient coordination both within industry and between industry and government. Where platforms for coordination across industry and government exists, this has supported market development.

## What can be done?

**Insurance does still matter.** Not all is doom and gloom. Once insurance “breaks free” beyond the initial stages, it can lead to capital market development. But unlocking that role requires a deliberate effort by governments and market players to overcome these barriers.

**Not just business as usual.** The low-income realities, lack of infrastructure, distribution challenges and limited skills in Sub-Saharan Africa mean that developing the retail life market will not be possible merely through “business as usual”. Disruptive innovation as witnessed in the bundled and early retail market stages is required to grow the retail presence of life insurance beyond the top-end formally employed market. This includes leveraging mobile networks to offer insurance cover to large groups of people. Utilising the scale of outreach to build awareness, trust and appreciation for the value offered by insurance is critical to build a basis for the next stages of development.

### Calibrate strategies through a concerted effort.

It is important to calibrate the expectations of what can be achieved in building the link between insurance and capital markets to the stage of development and the structural barriers to progression in a particular country. In the early stages of development, the starting point is leveraging government as key determinant of capital allocation. In parallel, active and deliberate coordination is needed to progress insurance markets through the development stages, with policy and market interventions at each stage calibrated to the realities of that particular stage.

Development partners have a strong role as catalysts of change: by enhancing coordination and exchange between parties, by building an evidence base of rigorous market information to inform strategies and regulation, by supporting experimentation by governments and market players, and in building capacity and skills.

## Conclusion

Insurance still matters – it can and does contribute to capital market development. However, the Sub-Saharan experience shows that the link is not automatic. Insurance only really contributes to capital markets once long-term insurance markets such as life insurance and contractual savings take off. In Sub-Saharan Africa, building these markets requires deliberate policies to overcome structural barriers to insurance market development. Not all markets will require the same approach: Policies need to be calibrated to the different stages of market development. The reward? An injection of capital that can contribute to a range of broader policy objectives beyond insurance market development. ■

# Irrationality in Microinsurance

By Jody Delichte



**Jody Delichte**, Chief Marketing Officer, Inclusivity Solutions

**S**ocial scientists have been studying decision making for decades. But it is only recently that industries such as insurance have started to incorporate the insights. An increasing number of insurance providers are starting to talk about the importance of behavioural economics. Some insurers, such as Lemonade, a peer-to-peer insurance start-up in the US, have even hired leading behavioural economics experts.

## So what is behavioural economics, why does it matter, and what does it mean for microinsurance?

The standard economic approach says that consumers are perfectly rational and make optimal choices based on the information available. But psychologists and behavioural economists are proving this rationale does not always hold true. They argue that even with knowledge and information, consumers still act in a way that is not in their best interest.

While behavioural economics includes a lot of different concepts, there are five that stand out as being particularly noteworthy in the context of microinsurance. These are time inconsistencies, limited attention, over-confidence and over-optimism, reference dependence, and social identity.

## Time inconsistencies

The main premise of time inconsistency is that individual preferences are not stable. They change over time and people tend to place higher priority on immediate short-term benefits over long-term rewards. Many people who have tried to lose weight can recount stories of wanting to shed the pounds, only to have their long-term goal thwarted by some kind of immediate gratification, such as a tasty dessert or an extra glass of wine. This tendency to discount the value of the later reward by a factor that increases with the length of the delay is called hyperbolic discounting. It results in present-bias and problems with self-control, especially when presented with a course of action with large delayed benefits, but small short-term costs.

Not surprisingly, studies have shown there is a relationship between time inconsistencies and factors such as wealth and socioeconomic status. Those living in poverty have a stronger present-bias, are less able to invest in their futures, and are more likely to make decisions that go against long-term interests. For those living in poverty, and anyone who experiences time inconsistencies, even small transaction costs or burdensome paperwork can be a real barrier to action.

In the context of microinsurance, this translates into keeping things simple and efficient, reducing paperwork as much as possible, and ensuring ease-of-access. Microinsurance offerings can also counteract time inconsistencies by incorporating immediate incentives and self-control mechanisms. Immediate rewards that are relevant for the consumer can be offered for registration, regular payment of insurance premiums, and complete premium payments. Offering immediate rewards associated with far-sighted decisions creates a sense of immediacy that shortens the time horizon from a long-term to a short-term perspective.

Self-control mechanisms such as auto-deductions are also useful in counteracting time inconsistencies. Whilst this tends to be done through bank or payroll deductions in more developed contexts, mobile microinsurance offerings are successfully using mechanisms such as automatic airtime deductions to address this challenge. However, it is important to highlight that while self-control mechanisms can be successful, not all are appropriate or will have the desired results. For example, auto-enrolment with an opt-out option has been successful in increasing organ donations in countries like the US. But, this approach has been troublesome in the context of microinsurance where consumers may not really understand what they have been signed up for and what it means for them.

## Limited attention

Even if consumers are provided with information about an insurance product and why it is beneficial for them, they may not perceive the need for insurance, particularly when information competes with other pressures in their daily lives. People simply do not have the capacity to process all the information in their environment simultaneously. As a result, there is a tendency to pay more attention to information that confirms existing beliefs, as well as place more weight on recent information. So, if someone believes insurers are a bunch of thieves, they are more likely to pay attention to a story their neighbour tells them about a rejected claim.

Limited attention means that providing helpful information to consumers is not always straightforward. People can experience information overload if the limits of their cognitive capacity are reached. This can cause stress and can even lead to choice avoidance. Too much information, too many choices, and badly designed choice architecture can therefore inhibit action altogether.

Microinsurance providers need to identify the right number of products to address varying consumer needs, whilst at the same time ensure they do not create choice overload. They must also manage the frequency and volume of communication to keep insurance offerings front-of-mind, as well as pre-emptively counter negative beliefs about insurance.

## Over-confidence and over-optimism

Similar to limited attention, over-confidence and over-optimism can lead consumers to believe their need for insurance is less than it actually is. Researchers in psychology and decision science have shown that people have difficulty formulating accurate beliefs about risk. They tend to be over-confident about their abilities and over-optimistic about their environment. As a result people tend to consistently underestimate the probability of negative events ranging from hospitalisation to natural disasters.

With overly confident consumers, some form of de-biasing can help increase take-up. For example, a short quiz could be offered that highlights actual risk and gaps in risk coverage, followed by an offer of insurance. A number of microinsurance providers use other methods of de-biasing such as heavy promotion of claims payouts and testimonials. Whilst these are primarily used to build trust, they can also show consumers that people just like them have suf-

fered from similar incidents and have benefitted from insurance.

Microinsurance providers can also appeal to social preferences and peer efforts, which may increase the take-up of offerings. For example if it is high enough, the number of similar customers taking up an insurance offering can be promoted in an effort to build or reinforce social norms. This technique is used in a number of mobile microinsurance communications.

## Reference dependence

Reference dependence basically states that value is perceived in relative rather than absolute terms. For example, people may latch on to an idea or a number and use it as a reference point for future decisions. This is referred to as anchoring. It is important to understand the anchor points of consumers with respect to microinsurance. But there seems to be limited studies in this area and a number of unanswered questions. For example, in the case of mobile microinsurance is the reference point existing informal risk protection mechanisms, other formal insurance offerings, or even other mobile value-added-services or airtime? If we can understand what people compare microinsurance products to, we can better understand how to frame offerings to encourage take-up.

Framing plays a major role in microinsurance because preferences can change when the same problem is framed in different ways. For example, people see gains and losses differently. Someone who is loss-averse will be more motivated by the thought of a loss than by the thought of a potential gain. Other individuals will be more attracted to stimuli that create positive emotional responses, such as messages and images associated with taking care of their family.

Microinsurance providers must keep in mind that consumer responses may vary significantly. Younger consumers may be more present-biased and therefore immediate benefits should be emphasised. Loss-averse consumers may be more motivated by loss framing that highlights the negative consequences of not having insurance. On the other hand, consumers who are more motivated by positive framing could have strong negative emotional responses to consequences that are portrayed too strongly.

## Social identity

In some cases barriers to adoption of microinsurance may be more significant than factors such as time inconsistencies, over-optimism, or

framing. Tobias Kalenscher recently published a paper<sup>1</sup> examining attitudes towards health insurance in developing countries. In his paper he highlighted a major barrier to insurance take-up as being unreadiness to support a 'caring society'. What this means is that people may not want their contribution to be used to benefit a total stranger instead of themselves or their kin. This occurrence may be particularly present in multi-ethnic regions in developing countries, where there is a culture of community support and where sharp boundaries are drawn between a socially close in-group and a socially distant outgroup.

In this case, in order for formal microinsurance offerings to be accepted, new models must be developed that take this into account. Or, efforts must be made to encourage people to accept the idea that contributions can benefit them and their kin, but also remote strangers. In order to develop acceptance for a caring society, the boundaries between in-groups and outgroups need to be broadened and everyone needs to feel like part of a larger, more inclusive group, such as a national group (e.g. insurance for all Kenyans). This is no small task, and it is questionable whether it can be accomplished on a private-sector level. In addition, it is important to ensure that where a broader identity is emphasised, identification with a specific social category is not reduced, as this can potentially have adverse effects.

## Behavioural economics is not the panacea for microinsurance

These five concepts provide an overview of some of the main relevant behavioural economics concepts. They are important to bear in mind when designing and marketing microinsurance products, but they are by no means the single key to unlocking the potential of microinsurance. Behavioural economics does not provide all the answers. But, it does help explain why knowledge itself may not be enough to change behaviour and it provides insights with respect to how we can more successfully encourage behaviour change. That said, whilst knowledge is power, with power comes responsibility. When applying behavioural economics to change behaviour, we must always ensure we act responsibly and keep consumer interests at the fore. ■

<sup>1</sup> Kalenscher, T. (2014) Attitude Toward Health Insurance in Developing Countries From a Decision-Making Perspective. *Journal of Neuroscience, Psychology, and Economics*. Vol. 7, No. 3, 179-193.

# Benchmarking in microinsurance

By Katie Biese, Bert Opdebeeck, Matthew Genazzini and Michael J. McCord



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**B**enchmarking in microinsurance has long been part of the discussion taking place in the sector, but is not yet common practice. In the years when microinsurance first started to develop, it was important to be as inclusive as possible and attract as many practitioners as possible. Now, however, the microinsurance sector has reached a certain maturity in which the discussion of benchmarking can be taken to the next level.

In order to take this next step, two pre-requirements are needed: Standardised reporting, which arrived with the publication of the Microinsurance Network's Key Performance Indicators for Microinsurance<sup>1</sup>, and data on which to base any hypothesis, which is available through the Network's microinsurance landscape studies. This article examines and compares the data collected in Africa, Asia and Latin America and the Caribbean, before concluding how best to move benchmarking in microinsurance forward.

## Key performance data collected from the landscape studies<sup>2</sup>

### Premiums

In Africa and Latin America and the Caribbean (LAC), microinsurance premiums are still a tiny slice of the entire insurance pie. Despite premium growth of 63% in Africa from 2011 to 2014, microinsurance Gross Written Premiums (GWPs) accounted for just 1.1% of total insurance industry GWPs in 2014. Similarly, just 0.5% of the total industry GWPs in LAC in 2013 can be attributed to microinsurance.

**Figure 1: Premiums per life, by region and product**

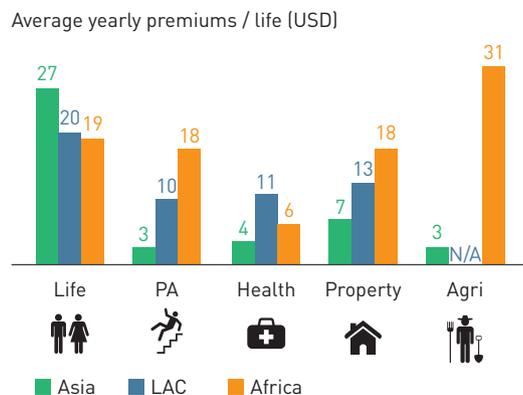


Figure 1 shows the average premium paid per life for each major product type in each region. At the most we see USD 31 for agriculture products in Africa, but the majority of products are commanding premiums of just USD 20 or less per year. The average annual premium per life in Africa across all products is about USD 16.5, but dramatically drops to USD 6.3 when removing South Africa from the dataset, which has relatively higher price levels and dominates the life market in terms of volume. Low premiums on health can be explained by a shift from offering comprehensive covers to more component or "sliced" health coverage, such as critical illness or hospital cash. Jumping over to LAC, the average annual premium for all products is about USD 18.2. In Asia, lower premiums in health and agricultural products reflect high subsidies in some markets, such as India, whilst the higher average life premium is due to the fact that many of the products include savings components which are included in the premiums.

<sup>1</sup> John Wipf and Denis Garand, 2010. Performance Indicators for Microinsurance- A Handbook for Microinsurance Practitioners, published by the Microinsurance Network, Appui au Développement Autonome (ADA) and the Belgian Raiffeisen Foundation, 84 pages.

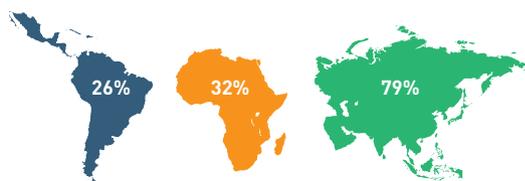
<sup>2</sup> Please note that other than combined ratio, each indicator is examined independently, and the size of the data set varies. More insurers reported claims than expense or commissions for example. The data set for claims ratio consists of more than 200 products in Africa and almost 140 in LAC, compared to the data set for expenses ratio, which is almost 150 products in Africa and just under 90 in LAC. Therefore, as we discuss the various indicators, it's important to take this into account. Also note that detailed data for Asia is limited, as the 2013 Asia landscape study did not collect information on expenses and commissions. However, where available, Asia data is included for comparison.

Though all regions offer products with very low premiums, which their respective low-income markets can afford, most companies reported a profitable microinsurance business. As we break down the different components of product costs, we see very different results amongst regions and across products.

### Claims ratio<sup>3</sup>

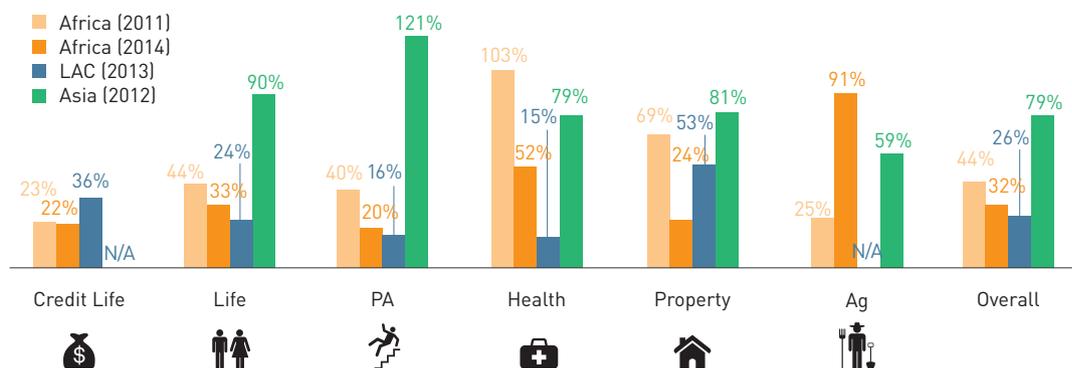
In LAC, the aggregate claims ratio across all products is 26%, meaning just over a quarter of the premiums were returned to the client (Figure 2). This is much different than in Asia, at 79%, which may be a reflection of the lower average premiums found in Asia. In Africa, claims in the aggregate were at 32% in 2014, which has fallen from 44% in 2011.

Figure 2: Aggregate claims ratio by region



Looking at claims by product type, we see that in Africa claims ratios have dropped since 2011 for all product lines except agriculture, which stands out at 91% (Figure 3). Health products in Africa have a higher claims ratio at 52% (though down from over 100% three years earlier) compared to health products in LAC, which are at 15%. The main reason for this difference is that many of the health products in Africa are comprehensive covers offered by mutuals which generally manage and pay out claims at higher levels. On the other

Figure 3: Aggregate claims ratios by product type and region

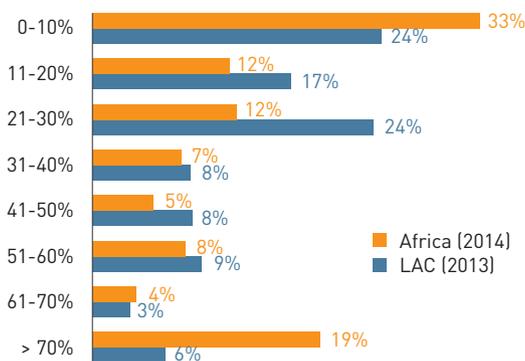


<sup>3</sup> Ratios were calculated as claims paid over gross written premiums. Aggregate claims ratio was calculated for all products reporting both claims and premium data, as: total reported claims paid / total reported gross written premiums.

hand, in LAC and to a growing extent in Africa, we see products sold through mass market channels that offer non-comprehensive coverage, such as hospitalization or critical illness coverage.

In terms of the variation observed in claims ratios, in Africa one out of every three products reported claims of less than 10%, compared to one in every four in LAC (Figure 4). When focusing solely on some of these extremely low claims ratios (less than 20%) reported for the African study, it is observed that several of these products have key factors in common. Many of these products are very new (launched in the last year or two) and have high rejection ratios. Additionally, the average claim pay-out is almost exactly half of the other reported pay out amounts. On the other side of the spectrum, almost 20% of products in Africa had claims ratios greater than 70%, compared to just 6% of reported products in LAC. Of these 20% in Africa, just 2 products

Figure 4: Distribution / range of claims ratios in Africa and LAC



Proportion of reported products with claims ratios in the given ranges

## Insurer insights: Claims ratios

Alex Kühnast, KGA Life, South Africa

When pricing a product, KGA calculates an expected claims ratio based on expected mortality. Once priced, this then informs a targeted claims ratio. That target depends on the distribution channel, due to different expense and commission loadings, as well as potentially differing underlying mortality. This often results in a difference between urban and rural distribution channels, dependent on differences in these factors. The company actively sets targets and monitors each distribution channel individually. To ensure that the initial price is sustainable, there is ongoing monitoring using experience data. Ongoing experience monitoring also enables KGA to detect fraud. It is key to notice when mortality experience is deviating from the expected claims ratio and then, by looking at data and investigating further to identify the reason for any observed deviation.

had combined ratios of less than 100%, meaning together with the administration and commission expenses, the majority of these products with higher claims ratios were not turning into profit.

These data provide some indication of where the sector is currently at in terms of claims. Are these levels of claims what insurers are expecting to see, or targeting? What should the sector be aiming towards, or benchmarking, in terms of claims, to ensure both viability for insurers and value for clients? Might the sector look to the 3-4% of products that are falling into the 61-70% claim ratio ranges as benchmarks? Before deciding, we must consider some of the other ratios, such as administrative expenses and commissions.

### Administrative expenses<sup>4</sup>

Keeping administrative expenses reasonably low is a key challenge for microinsurers and their

ability to achieve profitability. Yet many insurers have not yet taken the important first step of understanding what these costs are; whilst 2/3 of insurers reported measuring the financial performance of MI products separately from traditional business, just 25% of insurers in Africa and fewer than 10% in LAC actually track microinsurance expenses, direct or indirect (Figure 5). Because keeping administrative costs low is such a vital part of the profitability of microinsurance, we would expect that more insurers will track this in the future, and in turn, set targets and benchmarks for these costs.

Administrative expenses (excluding commissions) were similar across the LAC and African regions, with a 25% aggregate in both cases across all product lines. Agriculture and Personal Accident (PA) products in the aggregate have the highest proportion of administrative expenses in Africa, at 77% and 64% respectively (Figure 6). This is due to a few programmes with a high volume of premiums and high expense ratios bringing up the premium-based aggregate. However, the median expense ratios are just 19% and 16%, meaning at least 50% of programmes have kept their expenses much lower. Health products in general in Africa have significantly lower administrative ratios than their counterparts in LAC.

In Africa, however, almost a quarter of products had expense ratios greater than 50%, compared to fewer than 10% in LAC (Figure 7). This reflects the abundance of new products launched in the region (35% of products in Africa were launched in the two years prior to the study, versus 20% in LAC), which presumably have higher start-up costs and have not yet reached the volume of clients over which to spread these costs out.

Figure 5: Insurers' reported performance measurement

#### Insurers reporting in Africa:



2/3 said they measure their MI product performance



~25% account separately for their MI product expenses

#### Insurers reporting in LAC:



Just over 2/3 said they measure their MI product performance



Only 9% account separately for their MI product expenses

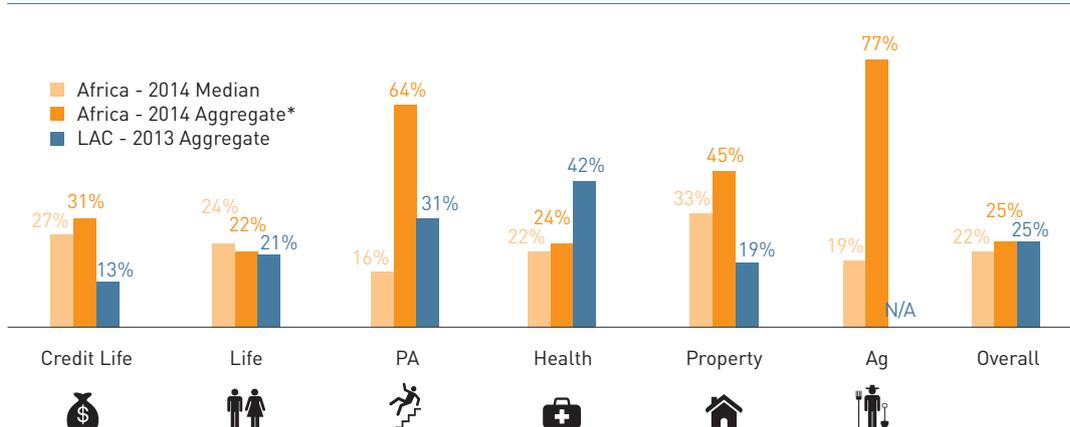
## Insurer insights on admin expenses

Agnes Chakonta, CEO, MLife, Zambia

"MLife tracks their microinsurance credit life and funeral business lines separately from each other, and separately from traditional lines of business. Each line of business at our company has its own P&L (Profits and Losses) where we specifically track claims experience and admin expenses. Because of this, we have been able to see that our credit life product has been very profitable; we are paying higher commissions but are keeping admin expenses low. Our funeral product has other factors at play such as fraud. In addition, we have monitored admin expenses under this portfolio and noticed they are quite high due to expensive distribution partners."

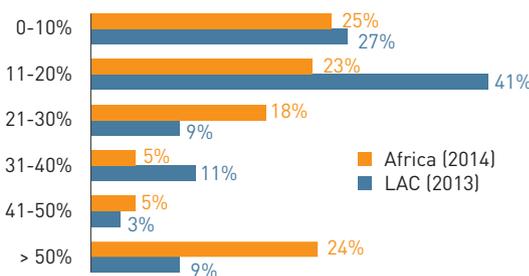
<sup>4</sup> Ratios were calculated as administrative expenses (excluding commissions) over gross written premiums. Aggregate is calculated for all products which reported both admin expense and premiums, as total reported admin expenses / total reported premium.

**Figure 6:** Administrative expense ratios by product type



\* Total reported admin expense / total reported premiums

**Figure 7:** Range / distribution of admin



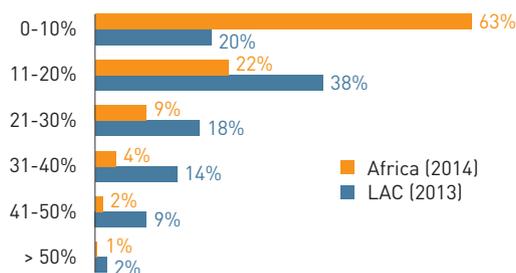
Hand in hand with this is scale – the average number of insured for programmes with expenses greater than 50% was 65,000, compared with 165,000 for those with lower expense ratios. On the positive side, a full quarter of products in each region have reported admin expense ratios less than 10%, proving that it is possible to keep costs low and perhaps providing a benchmark for the sector.

As both Africa and LAC regions strive for low administrative costs, they achieve this by different means. For example, utilising mobile technology to reduce administrative expenses has gained popularity and been successful in several cases in Africa. In LAC, we see a focus on call centres as a way to make products more cost effective. In Africa, the use of other technologies for the premium and claims payment processes, such as Point of Sale (POS) devices and smart/magnetic stripe cards, has increased since 2011, with the exception of specialised software. Surprisingly, paper forms still dominate these payment processes.

**Commissions<sup>5</sup>**

The third major component of the premiums is commissions. In Africa, aggregate commissions are at 17%, whilst in LAC they are slightly higher at 21%. Looking at the distribution of commissions, the majority (85%) of reporting products were at 20% or less, including a number at or near zero (Figure 8). These low commissions reflect health mutuals and other community-based organisations that command little to no commissions. In Latin America, we see a big difference, due to the power of intermediaries there. There are a number of mass market channels and large Microfinance Institutions (MFIs) that are requiring compensation for accessing their large customer bases, and thus there are higher commissions across the board. A quarter

**Figure 8:** Range / distribution of commissions in Africa and LAC



Proportion of products with commissions greater than 30%



<sup>5</sup> Aggregate commissions are calculated for all products where both commissions and premium data was reported, as total reported commissions / total reported gross written premium.

of all products reported commissions greater than 30% (compared to just 7% of products in Africa). In many cases, higher commissions will be warranted, as intermediaries take on more of the work and administration than they do in traditional product lines. As intermediaries take on more responsibilities from the insurers, some of the administrative expenses may be shifted to commissions. But is there a level at which commissions are too high so that, together with expenses, there is not enough premium left to provide real value back to policyholders?

**Combined ratio<sup>6</sup>**

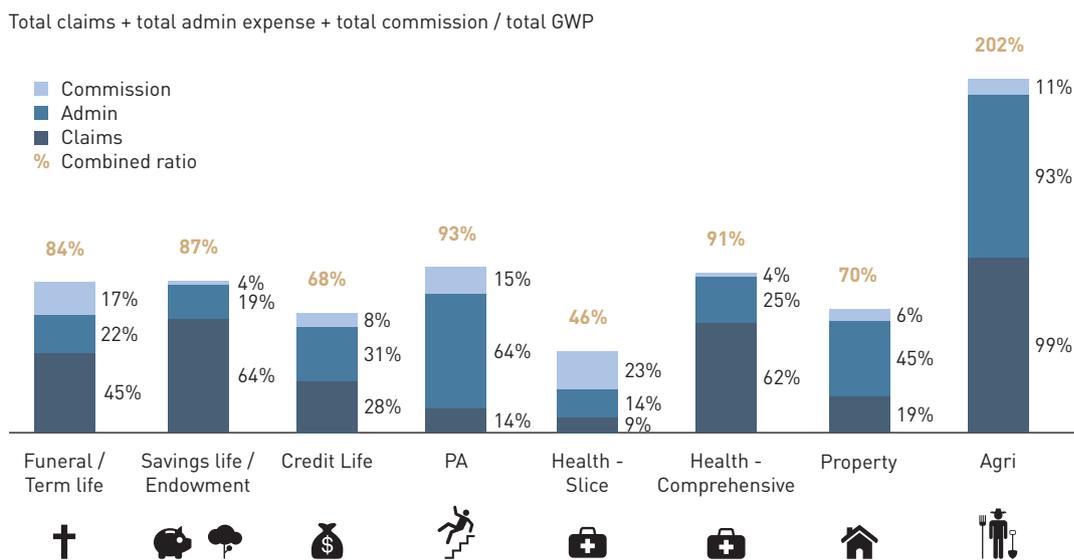
By combining all of these cost components – claims, administrative expenses and commissions – into a combined ratio we can get a good indication of the profitability of microinsurance products. As seen in Figure 9, in Africa there is great variation when breaking down combined ratios by product type. For example, the aggregate combined ratio for agriculture products is 202%; a handful of index-based products experienced large pay-outs in 2014 which drove up claims, and proportionately high costs of setting up and administering these programmes resulted in high expense ratios. Non-comprehensive health coverages, on the other end, had an aggregate combined ratio of just 46%. There is also diversity in the relative components. Agriculture, savings

life/endowment, and comprehensive health products seem to be paying out proportionately more in claims, whilst agriculture, property, personal accident, and credit life covers have higher relative expenses. Non-comprehensive health covers, personal accident products, and short-term life coverages are commanding higher commissions.

Looking across all combined ratios reported for Africa and LAC, illustrated in Figure 10, 40% of products in Africa had combined ratios within the 0-60% range, and 69% had combined ratios less than 100%, indicating clear profitability and a business case for the majority of microinsurance programmes in the region. At the same time, 31% of products did report combined ratios higher than 100%, meaning they are losing money. These products tended to be newer, cover fewer insured, and have higher administrative costs; as these products mature, we would expect the combined ratios to come down.

In LAC, more than 90% of products had reported combined ratios of less than 100%, again providing solid support for the profitability of microinsurance. In fact, in LAC as well as in Africa, with at least 40% of products having combined ratios of less than 60%, there might be indications of excessive profitability. Is this by design – are insurers targeting much higher margins because of the riskier nature of the market? Or is it more

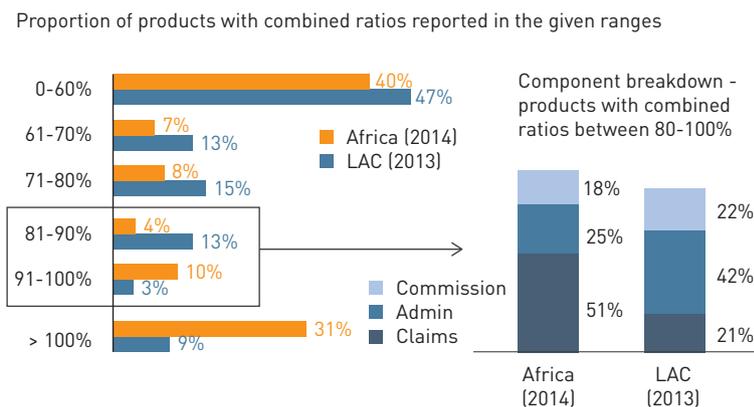
**Figure 9: Aggregate KPIs by product type - Africa**



\* Limited to subset of data for which claims, admin expenses, and commissions were all reported. These 135 products account for USD 238 million in gross written premium, or one-third of the total identified gross written premiums.

<sup>6</sup> Combined ratios were calculated by summing the claims ratios, expense ratios, and commission rates for each product. In Africa all of the KPIs necessary to calculate combined ratio were provided for 135 products (50%), accounting for USD 238 in premium (32% of the total identified microinsurance premiums).

**Figure 10:** Range / distribution of combined ratios in Africa and LAC



that they haven't managed to find ways of hitting their target claims yet? About 15% of products in each region came in at the 80-100% range. Might these be appropriate benchmarks for other microinsurance providers?

### Next Step: Improving through benchmarking

The landscape studies in Africa and Latin America give us, for the first time, a representative and in depth view of the state of the microinsurance sector. We gain knowledge on the averages and trends of claims, expenses and commissions ratios, detailed per product line and region. These insights allow microinsurance practitioners to position themselves against their peers and to use this information to improve their own performance.

Benchmarking, the act of comparing one's performance against peers or targets, will help the sector to evolve as practitioners learn from one another. This will stimulate performance improvement for existing products and might even provide evidence for insurers to expand operations into new areas. Insurers and insured will benefit from this increased transparency in the microinsurance sector.

Microinsurance's goal is to protect low income people against risk in exchange for a premium tailored to their needs, income and level of risk<sup>7</sup>.

This entails microinsurance products providing a fair value for both clients, expressed as an appropriate risk coverage for a just price, and for insurers, expressed in profit terms. The landscape studies reveal that there is room for improvement to the value for insured, and in some cases the insurer, at least for some products. It is not enough to compare against a product average however, if the average is not yet where it should be. Getting to know how segments and the overall sector is currently performing, also raises the question of the direction and goal we want the sector to move into. The Microinsurance Network wants to anticipate and lead this debate by identifying aspirational goals that can further serve as an inspiration for microinsurers to continuously improve their products performance, and as such improve the value for insured and insurers.

A first step in setting these aspirational goals was taken in March 2016 during an online Expert Forum, where data from the landscape study were presented, and opinions from the attendees were sought regarding internal targets and targets for the sector. The range of answers received indicated a great diversity in opinions and the need for dialogue in the sector regarding the setting of goals for microinsurance. This work will continue in 2016 through the identification of champions in defined performance areas, making the aspirational goals more relevant and concrete. In doing so, microinsurance champions will get recognised for their leading role, whilst being able to inspire other microinsurance actors to incorporate the underlying good practices. ■

<sup>7</sup> Definition from <http://www.microinsurancenetwrok.org/#sthash.OQ7IFTaN.dpuf>

# What is the role of private health insurance in reaching universal health coverage?

A dialogue between Jeanna Holtz and Robert Yates, with introduction by Thierry van Bastelaer



**Robert Yates** is an internationally recognised expert on universal health coverage and progressive health financing. He is a senior fellow of Chatham House, Royal Institute of International Affairs, in London where he is Project Director of the United Health Coverage (UHC) Policy Forum. His principal area of expertise is in the political economy of UHC, with a focus on advising political leaders and governments on how to plan, finance and implement national UHC reforms.



**Jeanna Holtz** is Principal Associate and health financing specialist with Abt Associates' International Health Division, and the former Chief Project Manager of the International Labour Organization's Impact Insurance Facility. She has more than 15 years of experience in the health insurance industry in the United States and internationally.

**U**niversal Health Coverage (UHC), defined as people having access to the health care they need without suffering financial hardship, has received remarkable attention over the past few years, in particular in Asia and Africa. This development should be welcome by all who believe that access to affordable, quality health care is a basic human right. As with all other rights, UHC can best be secured by the state, and indeed most participants in the debate around access to health care recognise the unique role that the state must play in this regard. Valid concerns have been voiced, however, about the capacity of low-income countries to raise and sustain the resources needed to ensure access to quality care to their entire populations. Issues around fiscal space, donor dependency, political courage and income redistribution are all relevant in settings where asking small groups of wealthy and politically connected citizens (who already have access to private health care) to subsidise care for large numbers of poor households, and this also involves difficult political decisions. At the same time, evidence that private voluntary insurance can bridge the gap is elusive, even as there is progress in lowering the cost of delivering insurance through grassroot organisations and information technology. As with many urgent issues facing developing nations, the solution to providing access to affordable quality care probably lies in the combination of the reach of the public sector and the ingenuity of the private sector. In the following dialogue, health finance experts Jeanna Holtz and Robert Yates point out the challenges faced by public-only and private-only approaches to UHC, and sketch out conditions under which public-private collaboration can boost the likelihood that low-income populations no longer have to choose between health and wealth.

**Thierry van Bastelaer**, Member of the Microinsurance Network's Board of Directors, Vice President and Senior Fellow at Abt Associates.

## *What are the challenges and constraints in reaching UHC?*

**Robert Yates:** Strictly speaking, no country in the world has ever reached perfect universal health coverage where every person receives every health service they need, with perfect quality and no financial hardship. So moving towards Universal Health Coverage (UHC) should be seen as a journey not as a final destination.

**Jeanna Holtz:** I agree with Rob – no country ever reaches UHC fully, regardless of the financing mechanism and approach. Rather, UHC remains an aspiration, comparable to goals such as clean air and water, or gender equality. When countries embark on this common journey – to move closer to UHC – the route that they choose will vary. Constant change in

UHC “road signs” – for example population and demographics; disease burden; advances in medical treatment; availability and quality of health services; or political stability influence a country’s pace and probability of progressing toward UHC.

**RY:** In agreeing that UHC is a journey, we should also recognise that some countries

<sup>1</sup> [http://www.commonwealthfund.org/~media/files/publications/fundreport/2014/jun/1755\\_davis\\_mirror\\_mirror\\_2014.pdf](http://www.commonwealthfund.org/~media/files/publications/fundreport/2014/jun/1755_davis_mirror_mirror_2014.pdf)

have made more rapid progress than others and looking at their health financing systems, they all have one thing in common: They have tended to replace private voluntary health financing with compulsory public financing. This has been the case in virtually the whole of the OECD, with the exception of the US which hasn't reached universal population coverage despite spending almost twice the OECD average on health. The UK, in comparison, has a very high public financing component<sup>1</sup>.

**JH:** I agree with Rob here, too. Purely voluntary, privately financed approaches to advance toward UHC have sharp limits. Drawbacks include over-reliance on regressive out-of-pocket spending, which disproportionately affects the poor, and in the case of insurance, adverse selection leading to spiraling claim costs. Research by Koven *et al.*<sup>2</sup> and Weiland<sup>3</sup> shows that administrative costs of public and private health insurance programmes remain high. This erodes client value and insurer viability. Greater use of technology and process innovations (e.g., premium collection via mobile phones) enable scale up of health insurance programmes and help align acquisition and policy administration costs with lower premium/lower margin products

that may exist within a larger menu of financing options.

**RY:** I am glad that we agree that public financing tends to be superior to private health financing. Middle income countries like Thailand, Brasil, Mexico, Turkey, and Sri Lanka have been celebrated as UHC successes once they made the transition towards a publicly financed system. So why is compulsory public financing (from general taxation and compulsory social insurance) superior to private voluntary financing (user fees and private insurance)? Basically this is because large-scale public mechanisms are more efficient (lower administration costs) and much fairer because they force healthy and wealthy people to subsidise the sick and the poor. These pro-poor and pro-sick subsidies are essential to fulfill the equity requirements implicit in the UHC definition. Private voluntary financing cannot achieve this and as Professor Dean Jamison says: "The path to UHC cannot work with reliance on voluntary private insurance."<sup>4</sup>

**JH:** A government's responsibility to regulate health markets is clear, as is its obligation to ensure equity for all, including the poor and vulnerable, and to provide adequate funding for priority health services. Subsidies are required

to deliver comprehensive benefits and to provide financial risk protection equally to all. I think the debate here centres not on whether, but on *how* governments should pursue objectives such as quality, efficiency and equity through sustainable financing, as components under the larger goal of achieving UHC.

Health insurance programmes require adequate revenue to cover expenses. Revenues are pooled through a range of possible sources (e.g., client contributions, government taxes or other sources). Otherwise, health insurers can be quickly backed into an unviable corner, with negative consequences. Public schemes may ration care; they may not pay providers in a timely manner or adequately, as has occurred with Ghana's National Health Insurance Scheme<sup>5</sup>. Health providers may decline to treat patients, or demand burdensome out-of-pocket payments. Private programmes may hike premiums, reduce benefits or exit a market.

**RY:** Yes, no system is perfect and there will always be room for improvement, but the international evidence is clear that public health financing offers the most efficient and equitable route to UHC.

## *How does private health microinsurance complement government-supported initiatives to reach UHC?*

**RY:** In recognising the superiority of compulsory public financing, the big question for microinsurance and private financing initiatives is: Do they accelerate or hinder the transition towards a predominantly publicly financed system?

**JH:** I would argue that a country's financing approach to advance toward UHC is not restricted to only public or private options. Instead, virtually all countries use a combination of public and private approaches. For example, these might include 1) essential services

(e.g., immunizations) provided for free by the government; 2) mandatory social health insurance for certain groups; 3) private insurance options elected by some to fill in coverage gaps or increase provider choice.

<sup>2</sup> Richard Koven, Taara Chandani and Denis Garand, 2013. The Business Case for Health Microinsurance in India- The Long and Winding Road to Scale and Sustainability. Microinsurance Learning and Knowledge (MILK) Brief No. 26.

<sup>3</sup> Michael E. Weiland, May 2015. Is Health Microinsurance Sustainable? An Analysis of Five South Asian Schemes. Paper No. 41. ILO's Impact Insurance Facility.

<sup>4</sup> Richard Lane, 2013. Dean Jamison: putting economics at the heart of global health. The Lancet, vol. 382, no. 9908, p. 1871.

<sup>5</sup> <http://www.ghanaweb.com/GhanaHomePage/health/NHIS-Service-providers-complain-of-delays-in-payment-claims-372880>

Contextual factors greatly influence the pace and direction of UHC reforms. These factors include the country's political will and capacity for good governance; pace of economic development; availability of data; and presence of a high-level champion. The ways in which government-sponsored health insurance programmes are financed and implemented also vary widely. For example, Lagomarsino *et al.*<sup>6</sup> observed a range of approaches being used to collect revenues, pool risk and purchase health services across nine low- and lower-middle-income countries that are implementing government-sponsored health insurance programmes as a cornerstone of their strategy to achieve UHC.

**RY:** Overall, I would say the evidence is mixed. Rwanda for example has been heralded as a UHC success story and it is true that it initially developed its health financing system on a network of community insurance schemes. However, the Government was very quick to socialise this system by making contributions compulsory and by increasing public subsidies to the whole health system. In fact the Rwandan health budget share is one of the highest in the world and 40% of the population are totally subsidised. So Rwanda is now predominantly a publicly financed system.

**JH:** True, Rwanda has made notable progress toward UHC and is a model that others can learn from. However, the country represents a unique case, with reforms occurring as part of post-war rebuilding; high infusion of donor support for health (38% of total health expenditure as of 2013<sup>7</sup>); high expenditure on health as a percent of GDP (11.1% versus an average of 5% for low-income countries and 9.2% globally<sup>8</sup>); small

population and geography; and an initial base of community-led schemes. Although the large majority of Rwandans are covered by public health insurance schemes, private health insurance products are also available.

**RY:** I agree that Rwanda is a pretty unique case because it quickly socialised its community insurance schemes. However, attempts to sustain unsubsidised community health insurance schemes have always ended in failure – with low coverage rates, high administration costs and a pro-rich bias when it comes to beneficiaries. After 40 years of experimentation can anybody point to an effective, efficient and equitable private health insurance initiative in a developing country? But perhaps the most worrying aspect of private health insurance schemes is not so much that they don't work – it's more their impact on the overall health financing landscape. This is because health financing reforms are inherently political and not surprisingly, there is a tendency for interest groups to try and secure better benefits and lower costs to themselves.

**JH:** There are constructive roles that private health insurance can play as countries attempt to move closer to UHC – and it can fill gaps in government capacity in the meantime. Done right, government efforts to raise revenue and provide social protection can be well-complemented by products and services offered by private health insurers, where innovation, technical know-how, and efficiency are more abundant. This requires that private health insurance can, and should be, designed and regulated to complement government-sponsored insurance programmes and other benefits made available to all citizens. The idea illustrated by the framework shown

in a recent blog<sup>9</sup> and a longer paper<sup>10</sup> on public and private pathways toward UHC is that government capacity to provide health insurance grows over time. Private health insurance eventually assumes a more confined role as a supplement to government initiatives – but it does not go away. This is because no government can provide all health services to all people all the time; rationing is always present.

In my view, governments can partner constructively with the private sector – not only for service delivery, such as is seen with the Mobile Alliance for Maternal Action<sup>11</sup> and the South African government, but to deliver insurance and other financing mechanisms. Some countries sponsor multiple health insurance programmes and offer private health insurance options or partner with the insurance industry to deliver government-sponsored products. For example, in Chile, where substantial progress toward UHC has been achieved<sup>12</sup>, private insurers, called Las Instituciones de Salud Previsional (Isapres), are required to provide the government mandated minimum health benefits to their beneficiaries (about 17% of Chileans), who access services mostly from private providers. In India, the government outsources insurance operations, including enrollment and claims as well as financial risk, to the private health insurance industry for a government sponsored inpatient insurance product called Rashtriya Swasthya Bima Yojana (RSBY). Since 2008, approximately 130 million low-income clients have been covered under RSBY by private health insurance companies that bid for business district-by-district across the country.

**RY:** India's use of private insurance companies to administer RSBY insur-

<sup>6</sup> Gina Lagomarsino, Alice Garabrant, Atikah Adyas, Richard Muga and Nathaniel Otoo, 2012. Moving towards universal health coverage: health insurance reforms in nine developing countries in Africa and Asia. *The Lancet*, vol. 380, no. 9845, p. 933–943.

<sup>7</sup> [http://www.africanstrategies4health.org/uploads/1/3/5/3/13538666/country\\_profile\\_-\\_rwanda\\_-\\_us\\_letter.pdf](http://www.africanstrategies4health.org/uploads/1/3/5/3/13538666/country_profile_-_rwanda_-_us_letter.pdf)

<sup>8</sup> *ibid*

<sup>9</sup> Jeanna Holtz and Catherine Connor, April 2016. Public and Private Pathways toward universal health coverage. Abt Associates Perspectives Blog.

<sup>10</sup> Meredith Kimball, Caroline Phily, Amanda Folsom, Gina Lagomarsino, and Jeanna Holtz, 2013. Leveraging Health Microinsurance to Promote Universal Health Coverage. Microinsurance Paper No. 23, Microinsurance Innovation Facility, ILO.

<sup>11</sup> <http://www.askmama.co.za/index.html>

<sup>12</sup> Ricardo Bitran, 2013. Explicit Health Guarantees for Chileans: The AUGÉ Benefits Package. Universal Health Coverage Studies Series (UNICO) 21, The World Bank.

ance schemes is interesting, but it's important to realise that the premiums are paid by the state not by individual households. Governments need to be careful in establishing insurance schemes for different segments of the population. If governments encourage people to set up their own "complementary" schemes, not only does this fragmentation increase overall costs (due to higher administration costs), it makes these groups less inclined to finance programmes that benefit the rest of the population. This can lock-in inefficiencies and inequities into the health system as demonstrated by the United States and South Africa.

If richer people want to take out supplementary insurance for non-essential care (e.g. plastic surgery) or better non-clinical services (e.g. a private room) this is not so much of a problem. However, when it comes to preventive and curative services it really isn't a good idea to create a two-tier system where the rich opt-out and insure themselves and the rest of society has to rely on under-financed services. This is the direction some de-

veloping countries (e.g. India) are heading at the moment, leaving hundreds of millions of people without effective health coverage. So in these environments it is questionable whether encouraging private insurance initiatives is helping or hindering progress towards UHC.

**JH:** Reciprocity between public and private health financing can be observed in developed and emerging health insurance markets with products that serve both high- and low-income clients. For example, in low- and lower middle-income countries such as Jordan, Nigeria and the Philippines, private insurers target low income clients with simple hospital cash products bundled with loans or mobile phone contracts. These products supplement government hospitalization benefits by providing a payment for each day in the hospital. Payments are intended to offset expenses associated with accessing health care (e.g., transportation) or lost wages, which can often cause financial hardship for a low income household, or cause it to forego care altogether. Similarly, we commonly see supplementary products offered in

high-income countries such as France or Canada, where progress toward UHC is more advanced. These products "top-up" benefits offered by the government for services such as eyeglasses, medicines, dental services, or upgraded accommodation for inpatient care.

In my view, hundreds of millions of people lack effective coverage due to various supply and demand barriers: Lack of sufficient funds from all sources; poor/inadequate healthcare infrastructure, limited capacity to implement evidence-based priorities for covered services; influence of special interests; lack of political will; inefficient allocation of resources; fraud and waste, to name some. Fragmentation of private and public insurance programmes, such as can be seen in a country like Jordan, is also problematic. However, fragmentation stemming from private health insurance is probably not a dominant factor in most developing countries with nascent health insurance sectors, noting that in Africa, as of 2015, penetration of private health insurance was in the low single digits.

# Implementation of regulatory and supervisory standards for access to insurance in Latin America and the Caribbean

By Patricia Inga Falcon and Panagiota Kastriti



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Increasingly, insurance supervisors in developing economies are recognising the need to include access to insurance as part of their financial inclusion strategy. Efforts are being undertaken to adapt regulatory and supervisory frameworks so as to enhance the development of inclusive insurance markets and promote sustainable access for the low-income population in the region. Nevertheless, defining and implementing these efforts requires lengthy processes in which permanent dialogue with all relevant stakeholders is a crucially proven factor for their effectiveness.

## Project background

The project 'Implementation of Regulatory and Supervisory Standards for Access to Insurance in Latin America' was a joint A2ii (Access to Insurance Initiative) – Inter-American Development Bank (IADB) initiative intended to contribute to the development of the microinsurance industry in Latin America and the Caribbean (LAC). The project focused on Peru, Colombia and Jamaica and was aimed at increasing the availability of sustainable insurance products tailored to the needs of low-income populations by supporting the partner countries in developing a policy and regulatory environment that enhances inclusive insurance markets in their jurisdiction, with some benefits for the region.

In partnership with the supervisory authorities from each country, the project analysed the respective conditions of access to insurance by identifying regulatory challenges impeding the local development of the microinsurance

### Box 1: Overview

#### Project facts at a glance

**Countries:** Peru, Colombia, Jamaica

**Duration:** 45 months (August 2012 – May 2016)

**Partners:** A2ii (implementation partner of IAIS<sup>1</sup> on financial inclusion), IADB (administrator of MIF<sup>2</sup>) and **National regulatory entities (project partners):**

- Peru: Superintendencia de Banca (SBS), Seguros y AFP
- Colombia: Superintendencia Financiera de Colombia (SFC)
- Jamaica: Financial Services Commission (FSC)

market, as well as potential opportunities for expansion. Based on these findings, strategies for the regulatory and supervisory approach, or 'regulatory road maps' (RRMs), were developed, detailing specific activities to be implemented as part of the project. The implementation of these activities was complemented by training and internal capacity-building to ensure that the supervisory authorities would have the skills needed to properly support the initiative, and to ensure that any changes made are sustainable following the project's conclusion.

### Theoretical framework and methodology

The development of an appropriate regulatory environment for inclusive insurance requires the tailoring of interventions to the specific characteristics of each country. The project was structured according to the following three components:

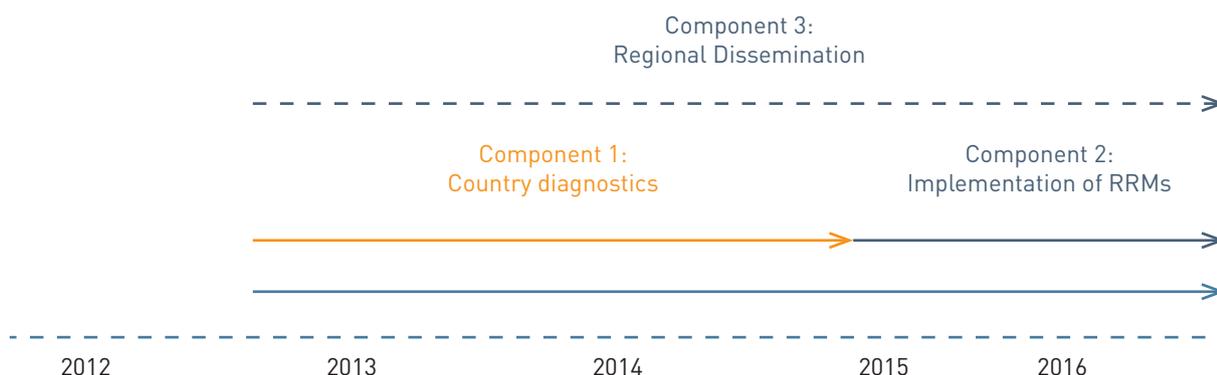
<sup>1</sup> The International Association of Insurance Supervisors

<sup>2</sup> MIF is the English acronym of the Multilateral Investment Fund, member of the Inter-American Development Bank Group

**Box 2: Components**

Component 1	Component 2	Component 3
<b>Country Diagnostics</b>	<b>Regulatory Roadmap (RRM) for Supervisory Authority</b>	<b>Regional Dissemination</b>
Analysis of the broader economic and financial sector country context, the demand <sup>3</sup> - and supply-sides, and policy and regulation in place to promote inclusive insurance	Activities depended on the needs identified in each particular country from the diagnostic report	Knowledge-sharing events
<b>Objective:</b> identify the drivers, opportunities for, and barriers to insurance market development to inform recommendations for the industry, policy and regulatory reforms	<b>Objective:</b> (1) develop and implement a Regulatory Road Map (RRM) in each country based on the findings of the country diagnostics, and (2) identify activities to strengthen the capacity of supervisors to eliminate regulatory barriers	<b>Objective:</b> facilitate the process of learning, communicating and catalysing the lessons learned with other supervisory authorities in the region during the project's execution

**Figure 1: Project Timeline**



An important component of the project was stakeholder consultation, with stakeholder meetings held in each of the respective countries at the project outset, as part of the initial country diagnostics and again later in the project, with industry workshops organised to gather feedback on the draft regulations or policy documents (where applicable). Overall, it is hoped that the lessons learned from the participating countries can be used by other supervisory authorities in the region and beyond to assist them in developing enabling regulatory frameworks in their jurisdiction.

**Development before the project**

At the inception of the project Peru, Colombia and Jamaica were at different developmental stages in their microinsurance markets and with their regulatory frameworks. Peru was characterised as a growing market that already had two sets of microinsurance regulation in place, the first codified in 2007 and the second a modification in 2009. In Colombia there existed a growing microinsurance market, but it lacked

**Box 3: Status of market development**

	Peru	Colombia	Jamaica
<b>Initial market and regulatory conditions</b>	Growing market with some regulation for microinsurance in place	Growing market with no regulation for microinsurance in place Industry self-regulation	Nascent market with no regulation for microinsurance

<sup>3</sup> Entailed qualitative analysis using focus-groups

any official regulatory framework and was instead self-regulated from within the industry. In contrast, in Jamaica there was neither a market nor any regulation for microinsurance in place.

## Findings from country diagnostics (Component 1)

The first component of the project, the country diagnostics, was completed at the end of 2014. The key findings from the diagnostics are outlined below.

### Key Findings from Peru: A growing microinsurance market on the verge of diversifying

The Peruvian government places great importance on financial inclusion and risk management, and has been extremely committed to promoting access to insurance through a supportive regulatory framework. Nevertheless, whilst reforms have targeted obstacles to access, simplicity and speed, certain key demand, supply and regulatory barriers persist and hinder the full development of the microinsurance market.

#### Demand-side barriers

- Weak insurance culture: insurance is not the preferred coping mechanism of low-income segments
- Distrust towards insurance companies
- Low financial education
- Coverage gaps

#### Supply-side barriers

- Insurance companies are highly dependent on distribution channels which are aware of their power to reach captive clients and can therefore impose high commissions. This power asymmetry and weakened bargaining power of insurance companies results in predatory cost-sharing between companies and beneficiaries.
- Certain current practices are marked by poor product design, offering little value to clients and involving long delays in claims payouts. These practices undermine consumer confidence in the market.
- Some clients do not receive adequate information on product terms, procedures and their rights.
- Important distribution channels are still waiting to be explored: e.g. the formal sector

workplace, remittance companies, informal risk-coping mechanisms and alternative channels such as post offices and other Non-Bank Agents (NBAs).

#### Supervisory barriers

- Microinsurance requirements are not enforced and there is no specific monitoring of compliance.
- Not all distribution channels that could play a role in microinsurance are supervised by the national regulatory entity Superintendencia de Banca (SBS).

#### Regulatory barriers

The regulatory framework applicable to microinsurance in Peru is confusing, entailing a frustrating volume of terms and conditions that insurance companies perceive as barriers. Despite attempts to create a flexible and attractive market, aspects of the current 2009 Microinsurance Resolution, such as allowing minimum exclusions subject to SBS staff interpretation, or not allowing co-payments and tight deadlines for honouring claims, prove to be powerful industry deterrents.

This was further complicated in 2010 by the introduction of a new regulation on mass commercialisation. The less onerous regulatory requirements associated with this regulation resulted in companies opting to register their products not as 'microinsurance' but rather as mass or traditional insurance. As a result, microinsurance consumers were no longer protected by the important consumer protection measures included in the 2009 regulation, specifically designed to protect typically more vulnerable and less educated customers.

In Peru, many more insurance products are offered to low-income segments than are registered as 'microinsurance' with the SBS: Out of 172 products that can be considered microinsurance in the wider sense, only 40 products are officially registered as microinsurance. On the other hand, of the 109 total products registered as microinsurance at SBS by the end of 2013, only 40 were marketed as such, which indicates challenges in product design.

The following areas were also identified as areas with potential for improvement:

- **Product registration process:** The current legislation does not provide a specific regime for registering microinsurance products with the SBS. Microinsurance products go through the same processes that are applicable to

conventional and mass insurance products, which often prove to be long, expensive and complicated.

- **Consumer protection:** Current microinsurance regulation puts the emphasis on ensuring that consumers make informed decisions and are treated fairly. Regulation imposes tight market conduct rules banning abusive clauses and practices, requiring the training of marketers and providing clarity on insurance companies' liability for wrongdoings.
- **Distribution:** Insurance companies are prohibited from using 'special offices' such as NBAs to distribute products. These 'offices' can be mobile, fixed, permanent or temporary and could play an important role in reaching isolated consumers, in spreading awareness, and in overall microinsurance market development.

### Key Findings from Colombia: A self-regulated market that is expanding and slowly diversifying

Financial inclusion sits extremely high on the government's agenda. The state acknowledges the importance of insurance as a tool for financial inclusion and has undertaken actions to encourage access by opening new transactional channels such as bank correspondence and mobile banking. Nevertheless, these transactional platforms have yet to be extended to microinsurance, and the microinsurance market continues to have low penetration, products of little client value and overall little to no consumer protection.

#### Demand-side barriers

- Poor financial education
- High cost of insurance and inflexible payment schemes
- Distrust
- Coverage gaps, heterogeneity in risk exposure and resultant mitigation strategies

#### Supply-side barriers

- Industry efforts to gather information about microinsurance – including definitions and data – based on voluntary reporting, have proven to be inconsistent for market analysis and market performance indicators.

- Group policies are the primary mechanism for commercialising microinsurance products.
- Distribution bargaining power: Mass distribution alternative channels, whilst encouraging access to insurance, are not necessarily the most appropriate for microinsurance dissemination. The quasi-monopolistic power of these channels over products and pricing transfers the high costs to clients through increased premiums.
- There is insufficient information to analyse the level of client value. However, there is some information on low prevailing renewal rates.

#### Supervisory barriers

- Although the SFC does not retain microinsurance specialist staff, it has and continues to promote the responsible and sustainable development of microinsurance by including the issue in its financial inclusion agenda.

#### Regulatory barriers

- No definition and delineation of microinsurance.
- Limited use of new distribution channels: One of the most extended channels for financial services in Colombia – banking correspondents – cannot be used for insurance distribution.
- Group policy regulation lacks appropriate consumer protection mechanisms at the individual level.
- Costs associated with the application of Know Your Client (KYC) rules<sup>4</sup>.
- Written consent is the prescribed means of issuing insurance contracts. This can hinder massive/group underwriting and has inflexible regulations, which can be a barrier as microinsurance relies on simple documentation and contractual processes.
- Regulation of mass market insurance (offered through utilities companies, supermarkets and similar channels) must evolve to protect consumers.

<sup>4</sup> A standard form in the investment industry that ensures investment advisors know detailed information about their clients' risk tolerance, investment knowledge and financial position.

### Key Findings from Jamaica: A nascent microinsurance market with no regulation

The Jamaican government is interested in developing a market for the low-income segment and the adoption of a national financial inclusion strategy is on the agenda. However, there is a general lack of knowledge about the target segment itself.

#### Demand-side barriers

- Lack of understanding of the value of insurance
- Insurance is not the preferred form of risk mitigation/coping mechanism (high informality, remittances from Diaspora)
- Low financial literacy
- Low awareness of consumer protection mechanisms

#### Supply-side barriers

- Unfavourable economic conditions limit the interest of the industry
- Poor product designs do not match low-income clients' needs and budget

→ Only traditional insurance intermediaries (agents, brokers, sales representatives) can sell insurance

→ Technology is not currently used as a transactional platform (e.g. mobile banking)

#### Supervisory barriers

- Sparse dialogue and lack of collaboration between entities that oversee the activities of the diverse microinsurance providers
- Insufficient data: Lack of detailed, accessible information about the insurance market and applicable regulation

#### Regulatory barriers

- Distribution: Prohibited use of non-traditional distribution channels
- Transactional platforms: No regulation allowing the use of NBAs or mobile banking

### Cross country learnings

General cross-country learnings are outlined below:

#### Box 4: Summary: Cross-country learnings on major barriers from country diagnostics

<b>Policy</b>	<ul style="list-style-type: none"> <li>- Inclusive insurance as part of financial inclusion agenda/strategy</li> <li>- Potential role of PPP to develop the market</li> </ul>
<b>Regulation</b>	<ul style="list-style-type: none"> <li>- Lack of capacity to develop a regulatory framework focused on microinsurance</li> </ul>
<b>Supervision</b>	<ul style="list-style-type: none"> <li>- Huge demand for capacity-building and limited resources</li> <li>- Need to create awareness about the role of supervisory authorities among the population</li> </ul>
<b>Demand</b>	<ul style="list-style-type: none"> <li>- Need for financial education programmes to: (1) promote insurance value to overcome distrust; (2) inform about available consumer protection mechanisms</li> </ul>
<b>Supply</b>	<ul style="list-style-type: none"> <li>- Lack of statistics on product pricing</li> <li>- Lack of knowledge and information about low-income segments</li> <li>- Limited product innovation</li> <li>- Available products offer low client value</li> </ul>

## Definition and implementation of regulatory roadmaps (Component 2)

The findings from the country diagnostics (Component 1) were used as inputs for the creation of a regulatory roadmap (RMM) by each country's supervisory authority (Component 2). Developed independently by supervisors, the RMMs were tailored to enable supervisors

to design their own long-term developmental horizon by incorporating the advantages and limitations in preconditions as identified through the diagnostics, whilst also considering their own internal capacities, resources and mandates prior to implementation.

Through a participatory approach, the project has served as a means of bringing together various stakeholders and promoting dialogue with the industry in each country over how to develop an effective regulatory framework.

Both Peru and Colombia have developed national strategies for financial inclusion, with Jamaica in the process, that include specific actions to promote access to insurance based on the country diagnostic's findings.

### Peru

From the findings of the country diagnostic, the SBS decided that the most pressing priority was to develop new regulatory modifications to tackle the condition of regulatory arbitrage. In tandem, capacity-building measures as well as consumer financial education material were incorporated into their RRM strategy.

Implementation results achieved so far:

**(1) New regulation:** The SBS engaged in a dialogue with the industry to discuss and promote the new recommendations for regulation. The SBS has issued a new draft for a microinsurance regulation incorporating many of the recommendations from the country diagnostic, which is expected to be adopted soon. The modifications incorporate a combined qualitative-quantitative definition, allow the issuing of electronic policies, extend the period for claims settlements, and speed up the process for new product registration by the SBS, among other measures.

**(2) Capacity-building:** SBS staff training on topics such as microinsurance criteria, product development and basic regulatory procedures. A one-week SBS staff training session on basic insurance and microinsurance topics was held in January 2015.

**(3) The development of financial education materials** focused on insurance tailored for different age groups. These materials are part of the SBS Financial Education programme and include audio-visual as well as graphic content about the need to adopt risk-minimising prevention strategies, the importance of insurance as a tool to mitigate risk and insurance consumer rights.

### Colombia

Considering the lack of reliable information to analyse client value, the SFC has sought to focus on internal capacity-building in order to train staff on how to monitor whether inclusive products offer client value. Additionally, to address barriers in distribution, the SFC has identified the need to develop new distribution channels, such as banking correspondents, appropriate for low-income segments.

Implementation results achieved so far:

In January 2015, the Colombian Ministry of Finance issued the Decree 034-2015, a law that allowed financial service correspondents to commercialise insurance. The Decree also delegated to the SFC the establishment of characteristics and conditions for contracts with correspondents, insurance policies to be commercialised, and suitability of correspondents.

- (1) A **regulatory proposal** has been developed to promote bank correspondence channels in the development of inclusive insurance.
- (2) The SFC is currently studying the need and viability of creating a **specific legal categorisation of microinsurance**. As part of the process, there have been working discussions between the SFC and the Colombian insurance industry on the need to establish criteria for inclusive insurance as well as a microinsurance definition.
- (3) **Capacity-building:** The SFC is training its staff on how to monitor inclusive insurance value for clients, and similar training has also been offered to the industry.
- (4) Also a consequence of the country diagnostic recommendations, in January 2015 the SFC clarified through a concept note that it is possible according to Colombian legislation to fulfil the 'know your clients' (KYC) requirements of the 'anti-money laundering and combating the financing of terrorism rules' (AML/CFT) through **digital or electronic signatures**, and not only by written means.

### Jamaica

Given the absence of a microinsurance market – both of supply and demand – in Jamaica, the FSC prioritised the promotion and regulation of microinsurance within the existing insurance regulatory framework and FSC mandate. Complementing these efforts, capacity-building measures for the FSC staff on basic microinsurance concepts and product design were included in the roadmap.

Implementation results achieved thus far:

- (1) A **policy paper** for the development of microinsurance in the country
- (2) A **proposal for specific microinsurance regulation** which will cover topics such as a definition and criteria for microinsurance policies, microinsurance product approval

processes, requirements for microinsurance intermediaries, and measures for consumer protection, among others.

- (3) Further measures:
- a. **Clarifying exemptions** to KYC measures in the case of insurance policies up to a certain amount
  - b. Permanent **dialogue with the industry** through the FSC's Inclusive Insurance Committee, a joint committee with industry members that was created in 2015 as a result of project recommendations
- (4) Capacity-building:** FSC staff training on basic microinsurance concepts and how to monitor client value, as well as training for the industry on microinsurance product design
- (5) Increased financial education** through regular media campaigns

#### Box 5: Project Results

##### Achieved

- Country diagnostics for Peru, Colombia and Jamaica completed<sup>5</sup> (Component 1)
- Regulatory roadmaps for improving the insurance regulatory environments produced in each country (Component 2)
- Translation of the A2ii training module on financial inclusion and the A2ii self-assessment on financial inclusion into Spanish to facilitate its dissemination and use in the region
- Implementation of roadmaps in Peru, Colombia and Jamaica
- Increased awareness in the region on access to insurance through the Association of LA Insurance Supervisors (ASSAL), using the regulatory experiences of the project countries as case studies
- A case study about Peru has been developed and presented at the Training on Financial Inclusion module for Latin American Supervisory authorities held in June 2015 in Lima, Peru

## Regional Learning (Component 3)

The project has been successful in its objective of increasing inclusive insurance awareness and interest among insurance supervisors in LAC, as it was able to create spill-over effects and replication in the region beyond the three insurance supervisors directly involved. Through the project more than 745 people have been trained in microinsurance, some individuals belonging to non-project participating countries. Moreover, Costa Rica, Guatemala, Paraguay, Nicaragua, Honduras, Chile and Bolivia are currently involved in developing an environment that promotes inclusive insurance and have expressed interest in receiving similar country support.

Overall, the project has allowed for the identification of opportunities to sustainably promote the expansion of inclusive insurance in LAC and has served as a platform for public-private and peer-supervisory stakeholder dialogue. The learnings from the project are invaluable for future interventions and replication in the region advancing access to insurance. ■

<sup>5</sup> Available online on the A2ii and FOMIN webpages

# Successful mobile operating schemes- the MicroEnsure experience

By Richard Leftley



**Richard Leftley**,  
CEO of MicroEnsure  
and Microinsurance  
Network's Board  
member.

**H**istorically, the mobile insurance model has relied upon agents selling the products to customers. In the new model developed by MicroEnsure, customers choose to sign up individually on their own phones once they see the benefit that is available to them in doing so. The scheme itself has the opportunity to empower society through financial inclusion by offering millions of people access to vital life insurance cover, completely free, when they top up their mobile phones.

## Developing the Telenor India “Suraksha” product

During product development, the focus was on product overview, design and the strategic focus. The challenge was to develop a unique proposition that would be available to all Telenor India's 48 million plus customers, alongside all potential new customers, from the first day on.

In product design, the decision to enrol is a factor that had to be taken into account. Either the customer chooses to sign up, or they do not. As a result, there is no need for the typical advice provided by an insurance agent. Furthermore, due to the large risk pool involved in mobile insurance, group rating principles apply to mobile insurance which eliminates the need for individual underwriting based on age, medical conditions, or other demographical considerations. What that means is that mobile insurance solutions are offered with minimal-to-no exclusions and everyone is covered.

Furthermore, the electronic registration process is quite simple. The entry fields allow for name formats to be entered as suits the local environment: In some markets it may be a single name, and in other markets, customers may have three or four names. It was also found that collecting additional information to identify the subscriber, reduces uptake to the level of 20% for each additional step in the process. Customer education takes place via marketing materials, SMS and a phone menu (USSD application) that provides all information required.

Mobile insurance is a single group policy, under which customers of the telecom are treated as members under the master group policy.

The individual phone number serves as the identification of the member, to which the enrolment information is attached. Enrolment does not involve a paper policy document. It was found that where paper forms (and therefore, wet signatures) were required for mobile insurance products, the products failed: Examples include MTN Cameroun (5,000 policies after one year) and MTN Ghana (8,000 policies after one year).

In addition, other industries, such as mobile money, have derived digital means of authentication which are widely regulated and validated. If banks and mobile payments companies do not require paper documents for digital/mobile accounts, then insurers who wish to transact digitally - and reach scale by doing so - must follow their lead.

Innovation must come to insurance through the insurance industry adopting best practices from other industries that have identified how to scale.

In this case study, mobile insurance products are provided for “free” to the customer: The telecom provides free cover based on a certain amount of airtime usage as a reward to loyal subscribers. Two months followings free insurance “paid” upsell products are made available.

Free products provide the basis for millions of the telecom customers to enjoy some form of insurance for the first time and also prepare them to buy products they will pay for themselves in the future. The free product continues after the paid product upsell options are launched, so that customers can buy increasing amounts of insurance over time. As such, this approach is an excellent way to introduce customers to insurance and then encourage them to become paying insurance subscribers over time. Approximately 40% of customers who signed up for free insurance eventually purchase paid upsell products.

Claims are paid via mobile money in order to ensure verification of the claimant and pay claims quickly and safely. Fraud is mitigated whilst serving customers appropriately, by focusing on the claimant story (as opposed to focusing on submission of a long list of documents and treating claimants with distrust). Claims officers begin to build a fraud analysis profile of a claimant without the claimant feeling attacked.

Should customers want to cancel their subscription, they have to call in. This ensures that the customer understands the product and the reason for cancellation is captured.

Reasons for cancellation are reported to the insurer and the telecom to ensure transparency and help to address any emerging risks that could negatively impact the telecom's or insurer's brand.

## Conclusion

In a country such as India, challenges such as scale, cultural differences, language, product access and regulation have emphasized the need to develop a completely unique approach in product development.

What has been delivered therefore is a multi-lingual offering across the whole of India, allowing users to seamlessly apply for, and manage the whole process through their mobile phone, meaning that the solution really is accessible to all.

There are no complicated application processes or forms, and the unique underwriting process means that there are no exclusions; literally everyone (over 18 years of age) is covered.

The other truly innovative feature that was developed through this process is the way in which cover is calculated. New subscribers to the product receive the product for free, for the first two months and need to do nothing else. After the initial two months, the personal offers are calculated on an individual basis, meaning the benefit is tangible to them and there are no grouped tiers as per "standard" insurance products.

The entire life insurance market over 68 years in India has been around 46 million, which equates to just 3.9% of the total population. Within just 148 days of the launch of "Suraksha", over 22 million opted-in customers were on board and the insured clients' profile was made up 100% from prepaid subscribers, most of them living in rural areas. Over 95% of all clients had never had any form of insurance before. ■

### Box 1: Overview

MicroEnsure serves more than 25 million low-income people around the world with insurance via mobile phone providers. Below are the mobile insurance products that MicroEnsure has launched with telecom partners:

- **Ghana:** Airtel Insurance, Tigo Family Care, Tigo Xtra Life, MTN Mi-Life
- **Tanzania:** Tigo Bima, Tigo Pona na Bima
- **Malawi:** TNM Moyo Cover, Airtel Insurance
- **Kenya:** yuCover with yuMobile, Airtel Bima Mkononi, Airtel Insurance
- **Zambia:** Airtel Insurance
- **Nigeria:** Airtel Insurance
- **Burkina Faso:** Airtel Insurance
- **Niger:** Airtel Insurance
- **Madagascar:** Airtel Insurance
- **Malaysia:** Digi Personal Protection
- **Pakistan:** Telenor Talkshawk Mohafiz
- **Bangladesh:** Grameenphone Nirvoy Life
- **India:** Telenor Suraksha Life Insurance



# Index-insurance and non-climate-related risks for Sahelian herders

By Sara Teillard, with review from Dr Brigitte Thébaud



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It is generally accepted that the concept of index insurance is designed to be more efficient to cover vulnerable producers than traditional insurance. However, the feasibility of developing this product to protect Sahelian herders from climate risks (drought in particular) is still in question, especially in the context of highly mobile livestock systems and trans-border movements between the Sahel and coastal countries. As a result, replicating Index Based Livestock Insurance (IBLI) on the basis of the models developed in Kenya or Mongolia may prove technically challenging and costly.

## The complexity of developing index insurance correlated to livestock mortality in Western Africa

A study conducted in 2015 for Acting for Life by Dr Brigitte Thébaud, an expert in agropastoralism in the Sahel<sup>1</sup>, highlights the difficulties of designing a climate index relating to livestock mortality rates, in the context of interannual variations in grazing resources. In many Sahelian<sup>2</sup> countries, the limited number of meteorological stations and precipitation measurements are usually inadequate to monitor climate events, especially in the sparsely populated pastoral areas. In the case of an index based on vegetation measurements, the difficulties of interpreting the Normalized Difference Vegetation Index (NDVI) data in agropastoral and agricultural areas, in order to differentiate pastoral biomass from agricultural biomass, can prove challenging. Furthermore, to be able to correlate a climate event with livestock mortality, uninterrupted historical data over

long periods of time are required such as those existing in Mongolia, where mortality rates were documented for all animal species since the 1920s at a district level. In Kenya, the absence of such critical data meant studies were necessary to construct a reliable index. Therefore, the development of an index tied to projected mortality rates constitutes a work of considerable scope, given the virtual absence of reliable data and the diversity of the micro-local situations encountered. In addition, in spite of common arid and semi-arid features, the West African Sahel has different characteristics compared to East Africa, where two rainy seasons often generate two potential compensation periods in the case of an annual insurance contract.

Thus, in this context, an index-based insurance product could prove both complex and costly to develop. Although donors often support part of the initial cost of development, the necessity to maintain and constantly readjust the index to limit the basis risk remains significantly costly.

## Is drought THE risk to insure?

For a large majority of Sahelian herders, livestock mobility is a core strategy to maximise animal production and to mitigate moderate or severe climate risks. During droughts, it enables access to southern refuge areas, limiting considerably livestock losses. Given the size of the livestock population in West Africa (see Tables 1 and 2), developing a concerted legal framework to encourage and facilitate livestock mobility is therefore a key issue as well as facilitating debate between all key actors to generate agreements for a

<sup>1</sup> Semiarid region of western and north-central Africa extending from Senegal to Sudan.

<sup>2</sup> Parts of northern Senegal, southern Mauritania, central Mali, northern Burkina Faso, the extreme south of Algeria, Niger, the extreme north of Nigeria and South Sudan, central Chad, central and southern Sudan, and northern Eritrea.

concerted management of resources. On the other hand, family herds will be impacted by non-climate related risks which will not be covered by a climate index insurance: Cattle rustling, encroachment of livestock corridors by agriculture, illegal taxes when crossing borders, transactions costs for resolving conflicts, diseases, bush fires, accidents on the roads, for instance. Other than drought, climate risks can also be related to torrential rains (floods) or off-season rains, which are increasingly common with climate changes in the Sahel. In addition, whilst severe and large-scale droughts may occur, rainfall and biomass monitoring in the Sahel tends to show that chronic rainfall deficits and forage shortages are occurring every year at micro levels. Such localised drought will impact on herders harshly, but their limited geographical scale will always place them below the trigger threshold.

Developing an index directly correlated to the livestock mortality could therefore be both extremely costly as well as complex to ensure the appropriate mechanism for insuring individual herders in a West Africa context. In addition to the mobility strategy, States have a crucial role in alleviating the impact of severe drought on herders. The African Risk Capacity (ARC) mechanism is interesting here whereby states

insure themselves against drought risk through an index which defines an alert threshold. This index, estimated by Africa RiskView, calculates the rainfall deviation to an average, but since everybody is impacted in the case of drought, it is not correlated to a specific loss such as livestock mortality. States which are members of the ARC risk pool receive a payout when the predefined threshold is reached. This trigger can differ according to the country but is designed in such a way that a pay-out is received on average every five years. Each country elaborates a contingency plan to define how they will use the payout, such as food distribution to vulnerable population or cattle feed distribution/grants to herders.

Such a mechanism combines insurance principles through a risk pooling at the African continent level, with a social safety net mechanism to redistribute the indemnity to the population. The advantage of developing this type of insurance system, which compensates herders before registering devastating impacts (like livestock mortality), or to mix it with a safety nets strategy, is interesting. Indeed, due to low natural growth rates for large animals, restocking a family herd after a drought is usually a long process, especially if animal losses are high (up to 30% when over 60% of the herd was lost, following the growth models of the

**Table 1:** Ruminant livestock population- Sahelian countries (2010 estimates, in millions)

Country	Cattle	Sheep	Goats	Camels
<b>Burkina Faso</b>	9.8	8	12.4	0.02
<b>Mali</b>	9.2	11.9	16.5	0.9
<b>Mauritania</b>	1.7	8.9	5.5	1.35
<b>Niger</b>	9.8	10.9	13.7	1.7
<b>Senegal</b>	3.3	5.6	4.8	0.05
<b>Total</b>	<b>33.8</b>	<b>45.3</b>	<b>52.9</b>	<b>4.02</b>

Figures rounded up, source: FAOSTAT, 2012

**Table 2:** Ruminant livestock population- Coastal countries (2010 estimates, in millions)

Country	Cattle	Sheep	Goats	Camels
<b>Benin</b>	2	0.8	1.6	0
<b>Ivory Coast</b>	1.55	1.7	1.3	0
<b>Ghana</b>	1.5	3.8	4.9	0
<b>Nigeria</b>	16.6	35.5	56.5	1.5
<b>Togo</b>	0.4	2.1	1.5	0
<b>Total</b>	<b>22.05</b>	<b>43.9</b>	<b>65.8</b>	<b>1.5</b>

Figures rounded up, source: FAOSTAT, 2012

Source: Thébaud B., Corniaux C., 2011. Livestock Trading in West Africa. Animation and training module. Groupe Développement-ARED, Dakar, Sénégal, 2011. 108 pages

International Livestock Research Institute (ILRI). This reinforces the need to support strategies which manage climate risks by preventative measures such as development or improvement of existing early warning systems, which is also a way to strengthen mechanisms for collecting useful data for the future.

## Insurance and non-climate related risks

As underlined earlier, herders also face many non-climate related risks that can strongly impact herd productivity and development. To cover these risks the possibility of adapting traditional insurance products currently in place for sedentary farmers could be explored for herders in the context of the Sahel.

Recently, the agriculture insurance company in Senegal, Compagnie d'Assurance Agricole au Sénégal (CNAAS) extended its "all-risks" traditional insurance product to herders. This insurance is linked to the purchase of animal feed (one sack to cover one small ruminant and eight sacks to cover a bovine). To simplify the process, the CNAAS has defined a fixed insured sum per category of insured animal: 15 000 FCFA for a small ruminant and 100 000 FCFA for a bovine. The claim corresponds to 80% of the insured sum. This experience is expected to provide interesting evidence on how to evaluate the feasibility of using traditional products at an affordable price whilst also giving important insights into adapting products to meet the specific needs and constraints of mobile herders.

In addition, the development of insurance solutions raises the issue of state involvement and indeed the viability of a model without state support through subsidies or reinsurance support. In the case of the CNAAS insurance product, 50% of the premium for each bag of fodder purchased is subsidised, without which the price would not be competitive. In addition, adapting insurance products to mobile livestock requires adequate legislative frameworks and agreements at the regional level, not restricted to the Inter- African Conference on Insurance Markets (CIMA) area, to enable partnerships between insurers operating in different countries to allow for trans-border transhumance.

These non-climate related risks are often underestimated in comparison with climate risks. However from our experience they have strong impacts all along the value chain. Non-climate risks can explain a large proportion of livestock mortality more than the climate risks managed by the mobility mechanism. To examine this issue



Soumaila Fomba Ouest Mali 2015

further, Acting for Life conducted a household and herd survey in 2015 in Senegal, Mauritania, Mali, Burkina Faso and Niger, financed by the European Union and the UK Department for International Development (BRACED Programme). The survey addressed a range of aspects related to impacts on the household and their experience over the last transhumance; the herd structure and organisation before and after the transhumance, the family economy, the risks faced by herders, the transhumance routes used, animal health, animal losses and animals sold among other indicators. Analysis of the results is expected in summer 2016. In the next two years Acting for Life will conduct a follow-up survey.

To identify a distribution channel or to define innovative insurance mechanisms in order to reduce transaction costs, it is crucial to understand how extensive livestock systems work. Mobility is not the only way to manage climate risks, strategies can be linked to economic value chains and, for example, access to markets amongst others.

## Livestock insurance, a necessary debate to secure a key economic value chain in Western Africa

Livestock insurance is a complex subject that requires a global approach looking at all available strategies of risk mitigation and how these can be combined or developed in order to define the most appropriate role for insurance. This is a key issue to ensure the sustainability of an economic value chain that generates important revenue in West Africa, particularly in the context of an opening international meat market, bringing with it increasing imports of refrigerated meat from Latin America. Indeed, the utility of an insurance mechanism at the State level to support and maintain the stability of the meat supply is crucial because it contributes to the sustainable development of the sector as well as the regional economy. ■

# Building scale in agriculture insurance through bundling with financial and non-financial services

By Pranav Prashad



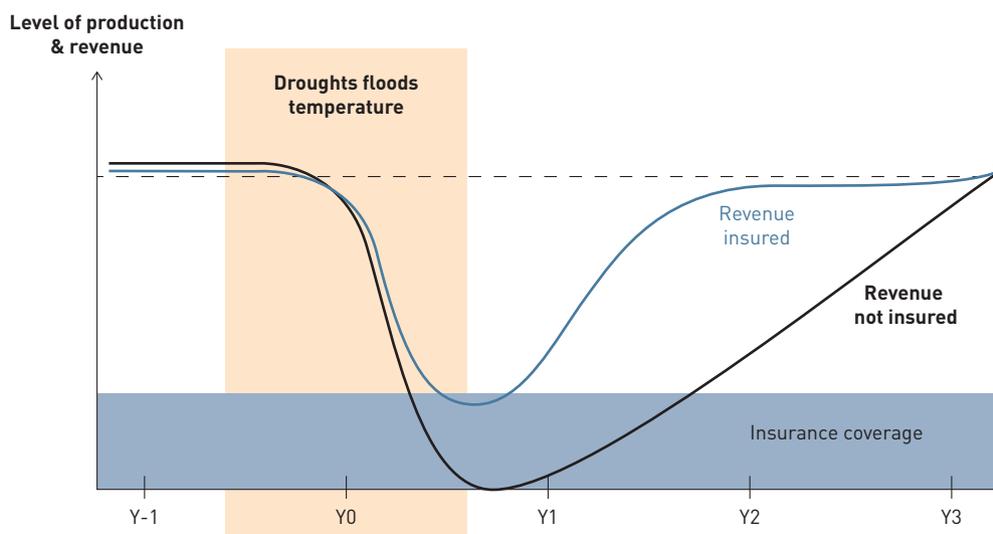
**Pranav Prashad**,  
Technical Officer, ILO's  
Impact Insurance  
Facility

According to IFAD<sup>1</sup>, there are some 500 million smallholder farms worldwide and more than 2 billion people depend on them for their livelihoods. These small farms produce about 80 per cent of the food consumed in Asia and Sub-Saharan Africa. What matters for the smallholder household, as for any household, is their consumption of goods and services in any time period, not just the real income or food supply they obtain from any specific crop. The purpose of managing risk for most of those families is therefore to smooth consumption<sup>2</sup>.

With agricultural risks increasing in frequency and severity due to climate change issues, insurance can mitigate the negative impact of climate events and secure future production as seen in Figure 1. Bundled with other products and services, microinsurance can help stabilise income in the whole agriculture value chain.

However, providing standalone insurance products – especially in new markets where they are untested and consumers lack understanding and trust – can be difficult and unprofitable. Bundling of agriculture insurance services with

**Figure 1:** The effect of insurance coverage on the level of agricultural production and revenue affected by climate change



Source: PlaNet Guarantee

<sup>1</sup> Nwanze, Kanayo N., 2011. Viewpoint- Smallholders can feed the world, IFAD.  
<sup>2</sup> Vincent H. Smith, 2014. Presentation on Producer Insurance and Risk Management options for Small Holder Farmers, World Bank Conference on Food Price, Volatility, Food Security and Trade, 18- 19 September 2014, Washington D.C.

other smallholder-focused financial and non-financial services is a concept that can be the driver for service providers and practitioners to develop a customised suite of products and services as well as delivery modes that offer substantial and tangible client value.

One of the main objectives of a development programme is to create a dynamic path to livelihood improvement - improving farming practices and organisations, access to quality inputs and access to market. However, for these, insurance as a standalone is not efficient enough and bundling provides more value for all the players in the value chain.

For the insurer bundling is an opportunity to:

- Leverage existing non-insurance services to increase outreach and penetration, compensate for lack of own staff/distribution in rural markets;
- Utilise the partner's goodwill and get customers to try the insurance offering;
- Reduce costs for distribution, customer education as well as ease of premium collection through prefinancing by the partner or the aggregator;
- Have reduced anti-selection/fraud due to bundled nature (especially for mandatory products).

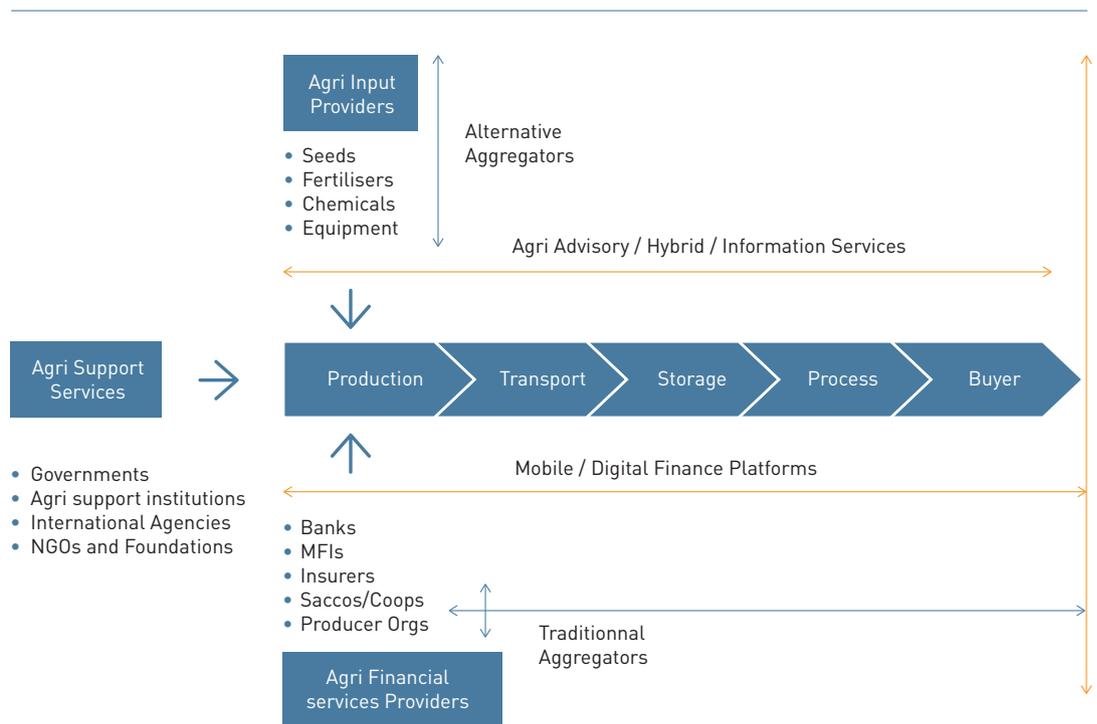
For the service provider of non-insurance services such as a bank or farm input provider, bundling with insurance can offer several advantages. These include:

- Reduction of agriculture lending risk;
- Use of insurance as a sales promotion tool for farming inputs;
- Possible increase loyalty to the product;
- Additional revenue stream in terms of incentives from the insurer.

From the farmers' point of view, a bundled insurance product offering can be a good platform on several fronts as listed below:

- Access to insurance on a cost-effective basis;
- Easier access to credit and improved farm inputs;
- Loan repayment relief and access to loans for the next season (in case of default due to unfavourable production);
- Ease of payment of premiums if bundled service provider pre-finances subsidises premiums
- Potential "one-stop shop" access to multiple services at a competitive price.

**Figure 2: Bundling agriculture insurance across the value chain**




  
**The delivery of bundled agriculture insurance services with other financial and non-financial services, needs to be value-aligned.**
  


All these factors can assist in stabilising income and improving food security.

Given the added value outlined above, the bundling of agriculture insurance services with other smallholder-focused financial and non-financial services can be a driver for service providers and practitioners to develop a customised suite of products and services. Bundling is possible across the entire agriculture value chain—from input providers to farm output purchasers, as shown in Figure 2.

There are several different products and services with which insurance can be bundled. These depend on both the channel and the target population. However, the delivery of bundled agriculture insurance services with other financial and non-financial services, needs to be value-aligned, i.e. bundling should not only make sustainable business sense for the providers, but it should also offer real client value to the smallholder whilst being easily accessible and affordable. To understand how such value alignment can be achieved, we need to consider the whole value chain in smallholder farming in the specific market. It will be critical to understand how and where each stakeholder fits in the value chain and interacts with the smallholder.

With the above in mind, let us look at a few of the cases of bundling of agriculture insurance products with other financial and non-financial services, such as agriculture input services, to evaluate how value has been derived for the players and how it led to building of scale.

## 1. Bundling with credit

Bundling insurance with credit and the loans provided to farmers is perhaps the most popular scheme that is applied. There are various examples, like the project of Planet Guarantee in Burkina Faso<sup>3</sup>. However, the largest scheme for this kind of bundling is the agriculture insurance scheme in India.

### Weather-Based Crop Insurance Scheme (WBCIS), India

For defined crops, WBCIS is bundled with agricultural loans taken from commercial banks in the country. All loans sanctioned for those crops in preselected locations (districts) by the state governments are required to be covered under WBCIS, which makes it a mandatory scheme for all farmers availing the loans. The

scheme is also open to non-loanee farmers and implemented with both public sector insurance companies such as the Agriculture Insurance Company (AIC) as well as private sector players in consultation with the state governments. The non-loanee farmers can purchase the insurance from a network of banks, insurance intermediaries and authorised representatives of the insurance companies, but the majority of sales go to farmers who have received loans from the banks.

The scheme is heavily subsidised by the government with premium subsidies reaching up to 75%. The government has been subsidising insurance for a long time and prior to WBCIS had a yield-based multi-peril crop insurance scheme- the National Agriculture Scheme (NAIS)- in which insurance was bundled with credit. However, it was offered only through the public sector insurer, AIC.

WBCIS covers over 25 million farmers and, based on the number of adherents to the scheme, the government is currently evaluating increasing subsidies for insurance (both credit linked and otherwise) to 97.5% under a new scheme, the Prime Minister Fasal Bima Yojana, to be implemented from the Kharif (monsoon) season of 2016.

The value proposition for the stakeholders for the credit-linked scheme is as follows:

#### To farmers

- Makes access to credit possible;
- Premiums are low for farmers because of subsidies provided by the government.

#### To banks

- Insurance acts as a facilitator for provision of credit;
- Reduces the credit risk.

#### To insurers

- The WBCIS is offered at actual actuarial rates, with the gap between premium paid by the farmer and actual premium being met by the central and state governments.

<sup>3</sup> <http://www.indexinsuranceforum.org/project/planet-guarantee-burkina-faso>

## 2. Using the value chain: NWK Agri Services - FarmerShield, Zambia

NWK Agri Services is a contract farming buyer with approximately 80,000 farmers on its books, which has been running weather index-based insurance for the last three seasons. The insurance is packaged along with farming inputs given to farmers at the start of every season. From 2014 to 2015, farmers were insured in 16 locations across the country, compared to 10 locations the previous season. Risks insured include drought conditions, late onset of rains, dry spells and excessive rainfall during the flowering phase. Data is provided by TAMSAT satellite data on a decadal basis. The product is insured by Focus General Insurance and reinsured by Prima Re and the Zambian Reinsurance Company Limited.

NWK Agri Services has built weather and life insurance into their cotton farming contracts in order to enhance farmers' loyalty and outputs delivered, and secure them against debt and livelihood problems in case of weather failures.

FarmerShield Weather is a weather insurance cover that protects farmers against severe dry spells or excess rain. The coverage will pay up to USD 20 per hectare in the case of severe drought or rain. Coverage costs just USD 3 and can be added to the farmer's loan balance so that there is nothing to pay upfront. NWK also offers an incentive to the farmers by offering this insurance free when minimum delivery and loan repayment targets are met.

Based on the experience and despite insurance being offered on a voluntary basis, over 50,000 farmers have opted for this cover<sup>4</sup>.

The value was enhanced to all stakeholders as follows:

### To farmers:

- Access to insurance: First time access to affordable insurance (just USD 3 which can be added to the loan balance with no upfront payments) for farmers in 10 locations (now increased to 16) for weather index-based insurance.<sup>5</sup>

- Higher income and protection for families: Weather index-based insurance helped farmers to mitigate their risk, which allowed them to grow more, with the knowledge that they can receive a pay-out from their insurance company if weather conditions affect their yields significantly.

Having "tested" the insurance services through this bundled offer, the farmers are now seeking other insurance products for their families.

### To insurers:

- Potentially increased demand for scaled up insurance products in the rural Zambian market. Products are actuarially priced and are expected to be profitable and sustainable for insurers.

### To NWK-Agri Services:

- Increased deliveries and reduced side selling;
- NWK recovered much more of the in-kind credit given to insured farmers compared to non-insured farmers.<sup>6</sup> Due to droughts, pay-outs were made in some locations in both 2013 and 2014, and the timely income contributed to this higher loan recovery rate from insured farmers.

## 3. End users: PepsiCo – contract farming, India

PepsiCo in India bundled their index insurance product with a contract farming agreement for farmers. This specific index insurance plan, offered by private sector insurance company ICICI Lombard, is based on humidity levels and temperature and is focused solely on potatoes. PepsiCo offers an encouraging rate to the farmers for their product which covers a substantial portion of the insurance premium. Weather forecasts and updates were also provided to the insured farmers through a tie up with the Weather Risk Management Services (WRMS).

<sup>4</sup> Oral communication from Ulrich Hess at ILO meetings.

<sup>5</sup> <http://www.slideshare.net/ctaspace/s47-agrotosh-mookerjee#>

<sup>6</sup> <http://www.gpfi.org/sites/default/files/documents/02-New%20Trend%20Agricultural%20Finance%20Report-Final-LowRes.pdf>

The value was enhanced to all stakeholders as follows:

#### To farmers

- The entire package led to 45% productivity and substantial increase in farm incomes;
- 95% penetration rate was reached among contract farmers; 75% was reached among voluntary/not-linked-to-credit farmers.

#### To PepsiCo

- PepsiCo has created a long-term relationship with the farmers.

#### To the insurer

- A new market segment was reached.

### 4. Value-added services with insurance: Weather Risk Management Services Ltd (WRMS)

Weather Risk Management Services Ltd (WRMS) is a climate risk management company that works with farmers and organisations to protect them against agricultural risks. WRMS is testing a weather index- based insurance package called Comprehensive Agriculture Risk Management (CARM) in two remote districts in India. The insurance package consists of a weather index product along with value-added services delivered through mobile phone. In most cases these services are available for free with the insurance. In some areas, farmers have to buy them for USD 1 per month. WRMS covers 10,000 paying subscribers and 25,000 farmers who receive the services for free. The services include<sup>7</sup>:

- Weather forecasts and alerts: Weather forecasts are sent to clients every two days via SMS. If extreme weather is predicted, clients are sent weather alerts so that they can take pre-emptive measures to minimise losses. The messages are in the vernacular language to ensure that the farmer understands. Clients pay greater attention to the weather alerts than they do to the forecasts. To address the problem of illiteracy, automated calls are made to farmers' mobile phones giving them daily weather updates in the local language.

→ Crop market prices: The purchase prices of different crops prevailing in the market are sent to farmers to enable them to choose the best place and time to sell their produce.

→ Updates on claims-related data: WRMS informs farmers about weather-related data and their relevance to claims. Communicating how claims are calculated has increased the level of trust in the product. The farmers can use the information to calculate claims pay-outs themselves, increasing the transparency in the system.

One of the many challenges facing microinsurance providers is illiteracy. WRMS tried to overcome this problem by disseminating recorded messages to farmers. These messages, received as calls by the farmers, gave weather updates, forecasts and some advice on farming practices. WRMS also offers a query-resolution service, whereby clients can call a number and leave their queries about the insurance product. A call centre representative from the insurer calls them back. Currently, WRMS receives calls mostly seeking information related to crop diseases and prices, and market intelligence. This ability to connect with a "real" person over the phone and discuss their problems has had a beneficial effect by building clients' trust in insurance.

These services have helped in improving renewals as even in the absence of claims, the farmers were able to get benefits in terms of forecasts and advisory services.

### 5. Agriculture input providers and the use of technology - ACRE, Kenya

The Syngenta Foundation for Sustainable Agriculture (SFSA) worked with the seed distributors of Syngenta to bundle agriculture index insurance to cover the crop of farmers in Kenya, with UAP Company providing the insurance cover. The insurance was bundled with seeds, and the mobile-based M-Pesa network was used for completing the insurance transaction. The Syngenta Foundation zeroed in on an index-based model for insurance which would insure the inputs and not the harvest. This would ensure that farmers recover their input costs and could secure replanting in the next cycle.

<sup>7</sup> ILO's Impact insurance Facility website

As farmers learned to trust insurance, and acceptance grew, a replantation guarantee product was introduced whereby the farmers could replant within the same season in case of

rain failure, thus providing them with an income for the season.

The process is illustrated below:

**Figure 3:** New Segment for insurer: Builds trust Farmers insured grew from 200 to 350k over 4 years



Source: ACRE<sup>8</sup>

## Cross cutting considerations

As seen in most of the above cases, insurance is not the primary product, but acts as a facilitator for the primary service offered such as credit offering, farm inputs and advisory services. Hence, greater effort may be required to highlight the importance of insurance in the entire package of services. In addition, the value added services provided, such as weather forecasts, need to be relevant and accepted by the farmers. This can help in building trust as well as improving the loyalty to the insurance product. In case the service is not used by farmers, the entire value proposition for insurance can falter.

Whilst credit-linked insurance has helped in building scale (such as in India), both credit and insurance can be expensive products for farmers, meaning a bundled product continues to require subsidisation to ensure affordability. For this reason, SANASA in Sri Lanka does not bundle insurance with credit as it is seen to be harming the value proposition as the cost of the package is too high for the farmer.

As insurance is bundled with other products which may "guide" the farmer's acceptance of

the package, it becomes important to ensure that the farmer is made aware and understands the offer of insurance. For this, it becomes critical not only to educate the farmer, but also the channel through which insurance is being sold. Companies like ICICI Lombard in India, though selling credit-linked agriculture insurance through the banks, employ various levels of education techniques such as meetings with village chiefs or special engagement programmes with women. In addition, radio clips and participation in local cultural activities are widely used<sup>9</sup>. The meetings organised by the distribution channels are particularly important to overcome the potential challenges of miss-selling or viewing insurance as an additional burden.

As a conclusion, bundled agriculture insurance plays an important role in minimising distribution costs, optimising distribution channels and increasing customer loyalty and retention, with the aim of protecting vulnerable farmers. However care needs to be taken in ensuring proper alignment of the value for all participants in the process, as bundling works only if there is business viability for all stakeholders. ■

### Acknowledgment

This note, especially the case studies, draws heavily on work that MicroSave is executing for the ILO's Impact Insurance Facility.

<sup>8</sup> Webinar on "How can index insurance be bundled with other financial and non-financial services", August 27, 2015. Organised by ILO's Impact Insurance Facility.

<sup>9</sup> Webinar on "Customer education in agriculture insurance", October 29, 2015. Organised by the ILO's Impact Insurance Facility.

## Interview



**Michele Grosso,**  
Founder and CEO.

# Michele Grosso, Democrance

Conducted by **Jenny Nasr**, Development Coordinator, Microinsurance Network

### *Why do you think there is a real need for microinsurance products in the MENA region? And in which countries in specific?*

The Middle East and North Africa is a very diverse region, spanning over a number of languages, religions and civilizations that root back to the beginning of humanity. The image of geopolitical turmoil that is often associated with the region, especially in the Western media, is a very minor component of the day-to-day life of its citizens. The general atmosphere is one of tremendous opportunity and for microinsurance this holds particularly true, from Morocco all the way to Turkey and Iran. At **Democrance, a start up microinsurance intermediary**, we believe people deserve access to protection tools for the risks and worries they face every day: From the migrant worker in the Gulf who is supporting his/her family back home, to the taxi driver in Cairo that is worried about his/her family getting sick and going to a public hospital for treatment.

### *Why, in your opinion, is microinsurance still lagging behind in the MENA region?*

Microinsurance is at a very nascent stage in the region, placing MENA in the world map as the last emerging region to develop microinsurance markets. One of the main reasons is the lack of proper regulation for microinsurance: It is still unregulated or under-regulated especially because it falls under the umbrella of conventional insurance. As an example, in certain countries, the greatest innovation in terms of distribution has been to allow distribution through bank branches, and this happened no more than three years ago. The scenario is rapidly changing though, and we forecast important regulatory changes in the next couple of years.

### *How does your innovative project support development and distribution of microinsurance products?*

We use mobile technology to disrupt the insurance value chain and dramatically reduce all cost items of a typical

policy (product design, marketing and sales, administration, premium collection, customer service and claims management).

Acknowledging the lack of innovation and the state of technology of insurance companies in the region, our technology platform alleviates all operational burdens from the insurer, to make it easy for them to provide insurance products to the low-income customers of large distributors such as Mobile Network Operators. We also do a considerable amount of work to make sure the product is designed to answer the real needs and worries of the end customers.

### *What are the main microinsurance products needed?*

The awareness of insurance is very low across the region, and there are some cultural barriers to it. Still, in my experience, when you explain what insurance is all about and how it can help in coping with the risks the potential customer has to face on a daily basis, the barriers suddenly fall and the potential client becomes very interested. Simple life and health insurance products are what people need the most, but these products need to be packaged according to their beliefs or needs in order to make them relevant: Takaful options for the conservative Muslim communities, savings and investments riders for the migrant workers supporting their families back home would be some examples.

### *How many people are you targeting and what are the microinsurance opportunities in the region?*

At Democrance, our mission is to democratise insurance by making it available and accessible for the low-income population in the MENA region, where it is estimated that more than 350 million (or 99% of the population) lack access to microinsurance services. Such a nascent market, combined with the external factors increasing the uncertainties of low-income populations all over the world, lead to our belief that the opportunities are endless in our region.



## Interview



# Walid Genadry, RisknoT

Conducted by **Jenny Nasr**, Development Coordinator, Microinsurance Network

**Walid Genadry**, Mr. Genadry was Head of the Insurance Control Commission in Lebanon for 13 years, former Chairman of the Arab Forum of Insurance Regulatory Commissions (AFIRC) and former member of the Executive Committee of the International Association of Insurance Supervisors (IAIS). He is now Managing Director at **RisknoT**, a startup consultancy in risk management.

***Given the current socio-economic situation of the Arab countries, do you think there is a potential for microinsurance to flourish?***

***How about in the rich Gulf countries?***

Given the importance of insurance as an economic leverage, and given that many MENA region countries have large sections of their population that are in the low-income segment, microinsurance definitely has a place in these countries. The bulk of microinsurance need is obviously in non-oil MENA region countries. That does not preclude that in some oil-rich Gulf states there are islands of poverty that would benefit from the introduction of microinsurance.

***What do you think are the most needed microinsurance products (health, agriculture, life, SME insurance, to name a few) for the Arab region and why?***

All the above products can be needed; however, Arab markets and realities are not uniform. One needs to assess such needs on a case-by-case basis. I have seen people in Lebanon accepting very low wages with the main objective of providing their parents with social security, since being employed allows them to receive it at no cost. Others have put themselves into unbelievable debt simply to have a relative admitted to hospital during an "emergency situation". One can see that in Lebanon a microinsurance scheme for health may be needed to back up the existing social security system which, today, does not cover everyone and, when it does, does not necessarily do so evenly. Other than that I would see life, accident and SME insurance as having potential. I would tend to add agriculture microinsurance in some countries, but this is an area where governments usually intervene and it is difficult to make a clear assessment of the need.

Success depends on effectively addressing a number of challenges such as proper identification of the target markets, the quality of the microinsurance products developed, and the way these products are being managed from underwriting to distribution to claims management. These issues, whilst not specific to microinsurance products only, become very important because microinsurance, in the end, is nothing but a standard insurance with a risk of high expense ratios given the "low" premiums being paid, whilst the administration, distribution and claims handling expenses may not drop significantly. This does move us in the direction of a riskier, less profitable product that needs to be valued for the importance of its social impact on the economy.

***What are the regulatory constraints to moving microinsurance forward in the region?***

There may not be major regulatory constraints per se preventing a company from designing and selling a microinsurance product, although in some cases the product may be faced with some prudential rules designed for a normal product that would throw the microinsurance product into a regulatory red zone.

I tend to see the necessity of specific regulation from a support angle rather than from a constraint angle compared to legislation for standard insurance products; i.e. a lack of some supporting/promoting legal framework may reduce the chances for microinsurance to succeed.

Indeed, microinsurance lies in a zone where governments may have a vested interest, from both a social and economic perspective, to be more involved. Government action can derive from both supervisors' involvement and through legislation development.

Legislation and regulation may need to be modified or written to facilitate the development of microinsurance, such as adaptation of supervisory practices at licensing, product, intermediaries and prudential levels in order to take into consideration the simplified nature of microinsurance and its potentially lower overall profitability.

Market conduct supervision may also be stepped-up to facilitate the appropriate and efficient handling of claims in order to promote the success of microinsurance as a value adding product.

## ***What, in your opinion, could AFIRC do to develop cooperation between insurers, regulators and intermediaries in the Arab region and promote microinsurance?***

AFIRC can indeed play a role in bringing together insurers, intermediaries and regulators, and has already done so, albeit not for microinsurance, through two successful conferences with the slogan “*Bringing together regulators, insurers and*

*intermediaries*” whose aim was indeed to facilitate dialogue between the different actors. Microinsurance is an area where AFIRC can play the role of bringing together the regulators and the private sector to promote dialogue between all stakeholders, improving the understanding of the strength and opportunities and threats inherent to microinsurance, developing relevant performance indicators, coordinating with other supervisors where needed, and helping to develop relevant legislation. We will also have to bring in the voice of the targeted consumers to better understand their needs.

## **Interview**



# **Martyn Parker, Swiss Re**

Conducted by **Annalisa Bianchessi**, Communications Coordinator, Microinsurance Network

**Martyn Parker**,  
Chairman Global Partnerships

## ***Personally, where lies your excitement to work in microinsurance?***

What motivates me to be involved in microinsurance is helping the people on the ground. At Swiss Re we have made it our mission to make the world more resilient to risk, that means striving to close the protection gap. In 2015, 70% of natural and man-made catastrophe losses were not insured. When there is a disaster such as an earthquake or a hurricane, it is the low income people that are most affected and pushed back into poverty.

## ***What opportunities do you see for Swiss Re for reaching new markets in the next ten years? What are the challenges?***

New technologies such as the use of satellites and drones have the potential to really bring down the costs so that insurance products can be offered more cheaply to a wider pool of people. Satellite imagery for example, allows us to quickly recognise drought in widespread and inaccessible areas without first having to send in a claims assessor. An immediate claims payment can then be triggered, granting relief to the affected farmers.

The insurance industry has been “guilty” of trying to bring their products to the customer rather than trying to really understand what the customer needs. This is a challenge and an opportunity.

Resilience and insurance have become a high priority on the global agendas and at the G7 meeting in 2015, and a commitment has been made to provide an additional 400 million low-income people with insurance against the risks of climate change by 2020. Climate change is also a challenge and an opportunity! We at Swiss Re can provide liquidity and technical assistance for insurers and MFIs to offer a whole disaster risk management portfolio where one policy will cover for a whole range of risks.

The cover offered through MiCRO, our partnership with Fonkoze in Haiti, for example, consisted of a set of weather and seismic-related triggers corresponding to wind speed, rainfall and earthquake to offer a timely payout. A total of USD 2,5 million was paid in claims during the policy period, benefitting 70.000 people.

Another example is PCRAFI – the Pacific Catastrophe Risk Assessment and Financing Initiative - covering tropical cyclones and earthquakes. PCRAFI has paid out twice for tropical cyclones: The first after Cyclone Ian in January 2014 in Tonga (USD 1.27 million) and the second after Cyclone Pam in March 2015 in Vanuatu (USD 1.9 million). Vanuatu, devastated by Pam, received the payment only 8 days after the insurance was triggered!

These public private partnerships are truly interdisciplinary ventures, requiring collaboration between the insurance industry, catastrophe modelling firms and development agencies. It is important to have an independent body



assigned to determine if the parametric insurance payment is triggered because the government, in our case, is usually the client.

### ***What are the barriers for large reinsurers such as Swiss Re to get involved in microinsurance?***

We are a whole sales entity, not connected to the end user. We need “friends” to reach the uninsured. Capital is not a problem for us but we are looking for partners who have the preparedness for innovation. The challenge is for microinsurance to reach scale. It is important that regulators foster an enabling environment, for example by creating a simplified licensing system for policies and allowing non-agents to sell policies.

### ***Since the release of the Global Risk Report, what risk coverages should be prioritised by the industry?***

Risks that should be prioritised are climate change-related risks such as hurricanes, typhoons, excess or lack of rainfall, and non-climate risks like earthquakes. Insurance also has an important role to play with regard to turning the tables

on poverty. In addition to microinsurance, take pandemic scenarios, for example, where insurance can play a key role in swift financing of emergency response work. Swiss Re and the World Bank are working together on developing a Pandemic Emergency Facility to be launched by the end of 2016.

### ***What do you see as the new trends in microinsurance? And what new business models are created to reach the uninsured?***

In 2016, microinsurance is on the agenda of many global forums, including the G7. New business models need to make the most of emerging technologies. We are currently seeing the use of mobile technology take off and, as touched on earlier, drones for example could be an important technology for assessing risk in inaccessible areas and also with regard to speeding up claims assessments in the wake of natural disasters. It is important that we develop a deeper understanding on the use of these technologies. That said, technology can only serve as an enabler in terms of bringing relevant, reliable products that genuinely support consumer needs to market. It must also be paired with a human interface to provide advice and support to those who are new to the concept of insurance. If we look at the success of BIMA, for example, the combined use of agents with technology appears to be a crucial factor.

## Interview



# Premasis Mukherjee, MicroSave

Facilitated by **Annalisa Bianchessi**, Communications Coordinator, Microinsurance Network

**Premasis Mukherjee**,  
Senior Manager, Social  
Security and Insurance

### ***What makes you personally excited to work in microinsurance?***

Microinsurance is the next wave of financial inclusion. With the advance of digital finance and convergence of government social security in favour of social microinsurance, the market is ripe for innovations. Besides, there is lot of scope for innovation in microinsurance in terms of behavioural understanding of the potential clients and strategic understanding of emerging distributions in microinsurance/mass insurance. These are reasons for exciting times ahead in the sector.

### ***What are the new trends you see in microinsurance today?***

Some of the new trends are:

- Convergence of government social security measures in favour of contributory microinsurance schemes;
- Mobile and digital insurance taking a lead in the mass insurance/microinsurance schemes;
- The establishment of interesting partnerships in microinsurance value chains with Mobile Network Operators, bank agents and supply chain retailers;

- An increased understanding and appreciation for behavioural factors behind insurance adoption in the microinsurance space; and
- Better reporting and governance structures emerging in microinsurance with the entrance of globally acclaimed investors and insurers.

### ***Where do you see the big opportunities for reaching emerging markets?***

One major opportunity is in developing countries in South and Southeast Asia and Sub-Saharan Africa where digital finance has already taken a lead.

Thematically, the areas of opportunity are:

- User-centric design approaches in microinsurance with greater understanding of insurance adoption behaviours;
- Strategic fine tuning in distribution approaches in mobile/digital insurance: How to (and how not to) use mobile money agents for insurance is going to be a key influencer in the market;
- How to integrate governments' social insurance programmes in microinsurance will be another value enhancer to the market.

### ***And what are the main challenges?***

Despite the impressive opportunity, the sector is not void of challenges. Though outreach of mobile/digital insurance is laudable, there are concerns about risks and consumer protection practices in the same. Further, understanding of behaviour and capacity of digital finance agents (and indeed distribution) is still limited in the insurance space— hence a lot of failures in the market where insurers are trying to “sell” complex insurance products through these channels. And also, not many global insurers are still convinced of the potential of and more importantly ways of doing effective microinsurance: How microinsurance fits into their strategy is a serious agenda for the sector.

### ***What are the new business models to reach the uninsured?***

Loyalty based and supply chain linked microinsurance models definitely grabbed attention of the global microinsurance industry. However, I would like to draw attention to the largest microinsurance scheme of the world: The Government of India's recent microinsurance initiative where more than 122 million people got insured through conventional insurance companies for personal accident and term life schemes. The government, instead of subsidising the schemes, created a conducive environment where people could enrol and pay a low premium, with banks being linked to microinsurance schemes. Whether other governments create similar experiments will be something to look forward to in the future.

### ***What are the pilot microinsurance schemes that have scaled up and provide lessons for the industry?***

I would like to mention the *Jansuraksha* scheme of the Government of India for being the most successful scheme so far in terms of reaching maximum number of clients at a low cost. Loyalty based mobile insurance schemes come as a distant second.

### ***What change is needed in investments by the insurance industry to build resilient economies?***

Insurance companies and players need to invest in creating robust digital platforms and distribution to deliver microinsurance schemes smoothly and effectively. Also, a huge impetus is required in the insurance literacy space.

### ***What do you consider to be MicroSave's biggest success story so far?***

We have been able to create a strategy for major insurance entities in Africa and Asia for digital and conventional microinsurance. We cannot divulge names of the entities, since we are bound by non-disclosure agreements with most of them.

## Interview



# Mathilda Ström, MILVIK (BIMA)

Conducted by **Annalisa Bianchessi**, Communications Coordinator, Microinsurance Network

**Mathilda Ström**,  
Head of Business  
Development,  
Deputy CEO

### *Personally, where lies your excitement to work in microinsurance?*

I am excited to see how many opportunities there are for disrupting the insurance space. There is so much work that can be done to change and improve the current state of the industry.

At BIMA we think that insurance is for everyone, not just for the wealthy. In emerging markets very few people treat the mass market consumer like the discerning buyers that they are. Like all other income groups, the mass market consumer want simple, good quality financial products that they can rely on – catered to their particular circumstances. We aim to design products that are both profitable and provide real value to the customers, and we use the combination of technology and people to deliver them.

### *Since the release of the Global Risk Report, what risk coverages should be prioritised by the industry?*

Life, health and accident insurance are really important, especially when the person insured is the bread earner of the family. BIMA has also started to offer other ways for families to protect their health risks by bundling our insurance products with tele-doctor and other mHealth services.

### *What do you see as the new trends in microinsurance? And what new business models to reach the uninsured?*

Smart phone penetration and internet usage in emerging markets is growing rapidly. Alongside this, mobile money

is starting to show signs of maturity in a few markets. The growth of these digital platforms is already creating new and exciting business models in the insurance space. Although it is likely to take time before the uninsured use this as their primary registration channel, digital platforms can be used to create more engaging products for previously uninsured customers. At BIMA we are currently offering a tele-doctor service and a health directory so that customers can get advice about their health issues simply and affordably.

### *What changes are needed in investment by the insurance industry to build resilient economies?*

At a mass market level there is a need to really invest in consumer education. If people are educated well in financial planning, and are given the tools to start the planning process (like insurance), it has been proven by research that they will be more likely to make investments for the future.

### *What are the barriers for large insurance companies to get involved in microinsurance?*

There are a lot of large insurance companies already getting involved in microinsurance, but I would say what may make it more difficult for them to get involved than smaller companies is likely to be because of multiple coinciding factors. For example, that the business case is unknown and unproven. Secondly, that their size makes them less able to be agile and fast-moving, adapting to changing customer needs. And finally, I have found that some of the larger insurance companies have a general aversion to taking risks in unknown spaces, such as the microinsurance space.

# Get a bird's-eye view with the world map of microinsurance

[worldmapofmicroinsurance.org](http://worldmapofmicroinsurance.org)

- Search by product type and by region
- View trends
- Download country profiles

In 2015 the Microinsurance Network and Munich Re Foundation launched the World Map of Microinsurance (WMM), an interactive online map that provides key global data on microinsurance.

The mission of the WMM programme is to collect factual sector data in an unbiased manner, with the objective of promoting transparency, monitoring growth, identifying trends and inspiring innovation. The map responds to the sector's need for **access to reliable and usable data to generate market knowledge and development, ultimately leading to better products and services**. The map enables insurers and microinsurance practitioners to gain a birds-eye view of the landscape of microinsurance worldwide, and search and extract sector-specific data by region to gain insights into trends for decision making.

The WMM brings together data collected regionally on a tri-annual basis since 2010, and a previous study from 2006, through landscape studies initiated by the Munich Re Foundation in collaboration with the MicroInsurance Centre, the ILO's Impact Insurance Facility, the Microinsurance Network and other organisations.

With the incorporation of the 2015 Africa landscape study data, the map shows that today over 280 million people worldwide are covered by at least one microinsurance policy.



# What are your predictions for the sector?

Let us know on Facebook, Twitter or LinkedIn

## What topics would you like to discuss or know more about?

Get in touch to propose new topics for our Expert Forums

About the Microinsurance Network

The Microinsurance Network is the global network of microinsurance experts dedicated to promoting access to valuable microinsurance for low-income populations.

Find out more : [www.microinsurancenet.org](http://www.microinsurancenet.org)

Read our publications: [www.microinsurancenet.org/resources](http://www.microinsurancenet.org/resources)

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