

Challenges and Opportunities of Micro Insurance

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Background

Approximately 1 billion people live in Africa, of which an estimated 60% live below USD 2 per day. These low-income households are particularly vulnerable to risks. Illness, death, natural disasters, damage to property, and accidents all can have devastating effects on livelihoods without a buffer to mitigate the financial impact. The informal mechanisms developed by the poor – rotating savings and credit associations, depleting savings, informal borrowing, selling assets, taking children out of school - offer short-term protection at long-term costs, preventing escape from poverty. Furthermore, most individuals in Africa cannot count on government safety nets to mitigate risks. Failure of informal schemes and government-led programs opens a significant window of opportunity for microinsurance.



Source: Matul, Michal; McCord, Michael J.; Phily, Caroline and Harms, Job

Micro insurance supply chain

The microinsurance supply chain is made up of five components:

- Reinsurer - provides insurance to insurers for catastrophic risks
- Insurer - carries the insurance risk
- Delivery channel - sells the insurance policy and provides basic servicing
- Policy holder - buys the product (can be individuals or groups)
- Covered lives - those who benefit from the cover (normally family members, or group members for group policies)



Landscape Survey of Microinsurance amongst 100 poorest countries

Several trends stand out in the landscape data which include:

- A significant presence of health microinsurance, especially in West and Central Africa. Though high in number of programs, the membership of these programs is generally small and their growth potential limited.
- The dramatic effect of insurance regulation introduced in India over the past few years, which has pushed micro insurance out into the rural areas and towards the poor. Over 30 million low-income people are covered by over 130 products. However, as one might expect from regulation-enforced targeting, not all these products actually benefit the poor.
- A noticeable lack of microinsurance in North Africa and the Middle East..



Landscape Survey of Microinsurance amongst 100 poorest countries

- Weak delivery channels hinder the advancement of microinsurance. Though retail models are beginning to be implemented, only 1.8 million (2%) of the people covered by microinsurance are covered by products delivered through retail intermediaries. Broker activity in microinsurance is almost non-existent.
- Considering that microinsurance products and services were found to cover 78 million lives, donor activity has been miniscule. The gross value of donor investment per covered life works out to be about US\$ 0.12 for the few who are covered.
- Most microinsurance programs identified were found to be very small measured by numbers of policyholders



Microinsurance Supply Trend

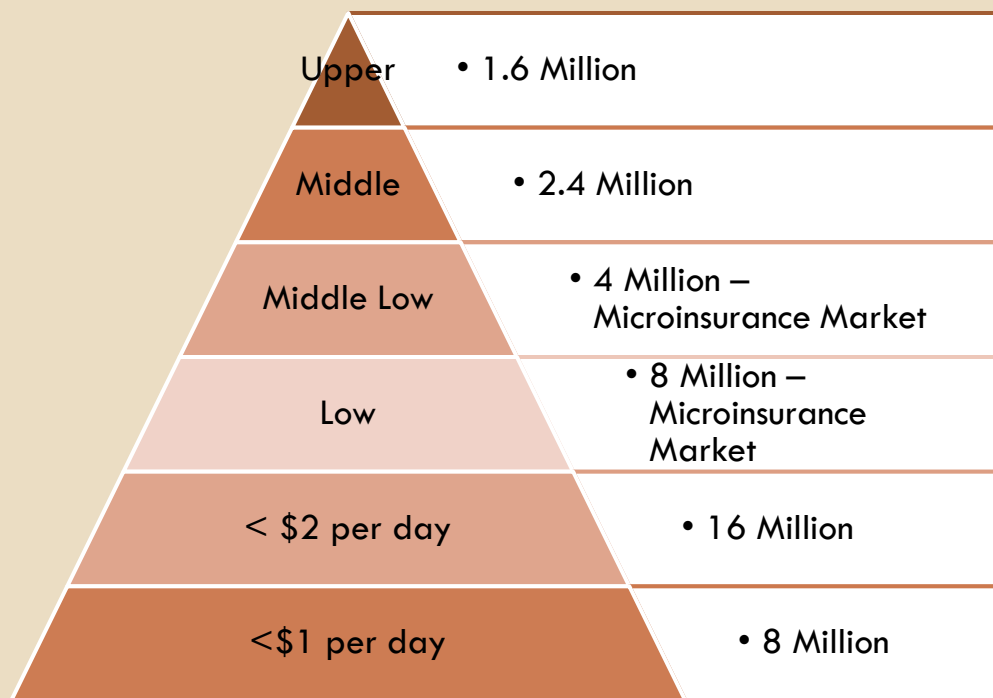
- Microinsurance for the world's poor is growing fast, with most of its recent growth coming from the private sector.
- Latest study by microinsurance Network in 2010 indicated a positive future growth of microinsurance business , predicting more than 100% growth within the next 3 years.
- This will be due to :
 - Improved learning and experience level
 - Rise in insurance awareness
 - More government recognizing the important social role insurance play
 - Anticipation that costs will decrease and improvement of product design
 - More insurers will commit more resources to develop this market socially with anticipated future profits



The Kenyan Insurance Market

- The total insurance penetration rate in Kenya accounts for 3% of the GDP. Life insurance accounts for 1% penetration
- The current voluntary insured population is approximately 750,000 out of a potential of 16 million. This indicates a penetration rate of a mere 4.7% against the insurable population for life insurance products.
- By comparison, the penetration rate by banks stands at 60% penetration rate with 9.5 million accounts and growing.
- Of the 16 million insurable Kenyans, 12 million are in the microinsurance sector and earning more than \$2 per day showing the huge gap in microinsurance. Kenya's informal sector is large & dynamic, 95% country's business is here
- Prevalent distribution channel for life insurance is through the conventional tied and non-tied agency system

Microinsurance Market



- Out of a total population of 40m, there are 21m adults of whom 12m are unemployed.
- 7m Kenyans are employed in the informal sector
- 24m people living below \$2 a day.
- In excess of 11m Kenyans earn between \$2 and \$10 per day and form a strategic and core market segment for **Microinsurance.**

(Source: Cenfri, Kenya Microinsurance Landscape, 2010)



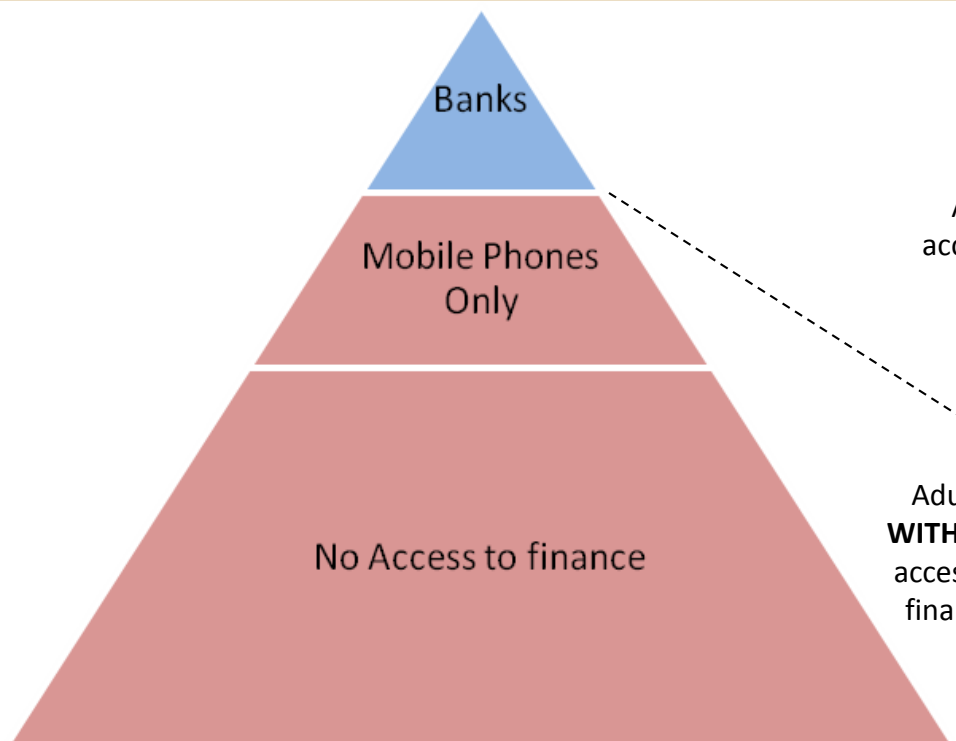
Deepening Financial Access in Kenya

An Opportunity for Kenya Insurers

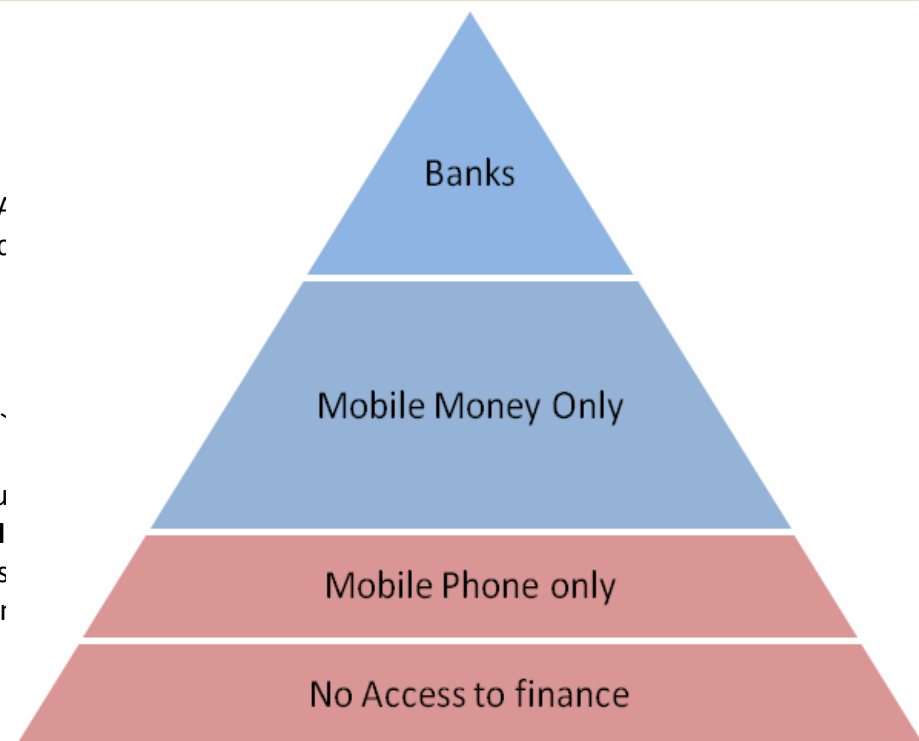


The pyramid below illustrates the opportunity created by the Mobile Money Transfer upon which insurers can use as route to the Microinsurance Market in the middle and the bottom of the Pyramid

2006



2010



Microinsurance Business : The Core Problem

- ❑ With limited access to savings and insurance, majority of Kenyans are unprepared for any future financial needs. Most common reason for saving and borrowing is for consumptions and education for themselves and children (*Financial inclusion in Kenya Survey , Fin access 2009*)
- ❑ This contributes to the vicious cycle of poverty and chronic dependency that has become prevalent in Kenya today.
- ❑ Limited access to affordable insurance and lack of awareness and negative attitudes towards insurance prevents Kenyans from planning for life's events.



Customer needs verses customer wants

A good understanding of customer needs is a must to determine the right product

CUSTOMER “NEEDS”

- Savings, health covers
- Life protection
- Asset protection
- Income for retirement

NEEDS - change

- Product life cycle
- Market Forces

CUSTOMER “WANTS”

- Trust
- Fairness
- Ethical System
- Meeting of expectations

WANTS – are statics

- Alignment with cultural sensitivities



Product Offerings

- Insurers need to tailor made their products to suit customer needs and anticipate how those needs would change over time .
- We should take into account the fact that the low-income market in Kenya receives their income on a daily basis , and identify the needs for this market by exploring payment of premiums in installments to fit their lifestyles
- Most existing products are of poor quality, most are linked to credit schemes (credit life insurance) and are designed to protect the lender should the borrower die. Better quality tailor made products are needed which truly assist the family with continuing cover after the death of the breadwinner
- The most common microinsurance products involve relatively low administrative burden , easily accustomed to fit the financial means and demands of the bottom of the pyramid. The benefits usually consist of lump sum payment.



Product Offerings

- Life or personal accident are often combined with health insurance or property insurance, credit life or accident insurance , however health insurance and property insurance are difficult to implement due to high claims handling costs and volumes.
- *Property micro insurance*: it is difficult, especially given the tight margins, to control policyholder fraud and moral hazard (the tendency to be less careful with insured property. Innovative ways to deliver these products are necessary
- Low insurance awareness amongst the income households is a challenge since majority of relevant microinsurance products are voluntary policies while the compulsory products are usually linked to credit services.



Market Challenges

The main challenges of microinsurance market include the following:

- The lack of insurance awareness is a challenge since it results in relatively low demand for microinsurance products. Insurance poor reputation due to delayed claims settlement need to be correct and build up trust by making it easy to claim and prompt settlement
- The biggest single constraint of microinsurance is delivery. Existing delivery channels often do not see the opportunities in microinsurance or recognize the secondary benefits they tend rather to focus only on how insurance benefits them (for example, through commissions and portfolio protection). Innovative strategic partnerships with partners that are closely associated to the target population such as retailers , churches , CBOs, Saccos, MFIs



Market Challenges

- High client acquisition costs: this is made up of costs incurred to reach potential policyholders living in remote areas not reachable by conventional distribution networks such as brokers and agents . This is a real challenge for insurers to become sustainable by balancing between low premium income and expenses.
- Miss-selling : Due to complex nature of insurance mass distribution of microinsurance insurance products can pose a risk to underwriters due to the risk of miss-selling
- The lack of statistical data required for risk assessment and premium calculations is another significant challenge to the penetration to microinsurance market. Most insurers choose the conservative approach in the absence of valuable data and a more risky trial and error method



Administrative Challenges

Development of well integrated Information Technology and Communication systems coupled with superior ICT skills

- Underwriters should address this challenge through ICT interfaces that fully integrate with their existing underwriting systems
- Collection of information at point of sale
- Reliable communication to policyholders
- Overall data management and administration
- communication such as claims notifications, requirements and settlements , promotions etc

- Capacity building in each particular aspects (underwriting skills, actuarial expertise, product design ,development and pricing)



Insurance Regulatory Challenges



Microinsurance needs favorable regulation. It is dangerous for low income households to be insured with unregulated insurers who hold insurance risk without reserves or reinsurance.

Too frequently this has led to poor people not only losing their premiums but experiencing the full consequences of catastrophe - for health insurance, being refused treatment and possibly dying; for property insurance, losing their homes; and for life insurance, the family being left destitute



Insurance Regulatory Challenges



- Adequacy of regulations in terms of safeguarding the interests of microinsurance policyholders
- Harmonization of current regulatory framework to ensure fair playing field.
- Minimization of supervision and cost of regulation while ensuring high quality service
- Creation of flexible regulatory framework that motivate micro insurers to innovate and legally provide microinsurance services



Critical Success Factors For Sustainable Micro Insurance Business



Commitment & passion to Serve the low income sector

Commitment of senior management to do things differently for low income market

- Investment of time, resources and capital
- Long term strategy to profitability: supported by other business segments initially
- Iterative learning process

Culture of continuous improvement & innovation

- Less bureaucratic structure and willing to listen to new ideas
- Does not imply compromise to good business practices and risk management - must have a sound business proposition

Dominance of market

- First to market; gain significant presence
- Trusted brand (insurer or partner)
- Visible in the community



Creating Demand & cost savings

Slotting into existing social practices

- Must get into shoes, mindset and daily circumstances of customers to see what will work

Quality verses quantity of business

- High costs but better quality business with face to face sales trade-off

Consumer education initiatives

- Difficulty in accessing a significant segment of the market
- Mixed agendas - educating consumers about their rights or benefit of insurance as a risk management technique

Creating cost-efficiencies

- Investigating cost saving opportunities at every level of the process



Conclusions

- To reach large numbers in the low income sector with financial services requires building an inclusive financial sector that has diverse range of providers offering diversified range of products and services capable of meeting the diverse needs of different segments of the population down to the poorest.
- Building an inclusive financial system requires interventions targetted at the three broad levels of the system – Macro, Meso and Micro.
- Partnerships and strategic alliances are very crucial in the development of the micro insurance policies for low income households a market that has been neglected by commercial insurers



Conclusions...continued

- A flexible regulatory framework that motivate micro insurers to innovate and legally provide microinsurance services to the low income households
- This in turn will create a great opportunity to the low income people to access financial services with higher overall protection against life, health and property risks, thus benefiting from specific income generating opportunities..



THANK YOU

