Developing Microinsurance Markets: Key Issues For Underwriters And Distributors

Presentation by Anja Smith

WAICA Education Conference

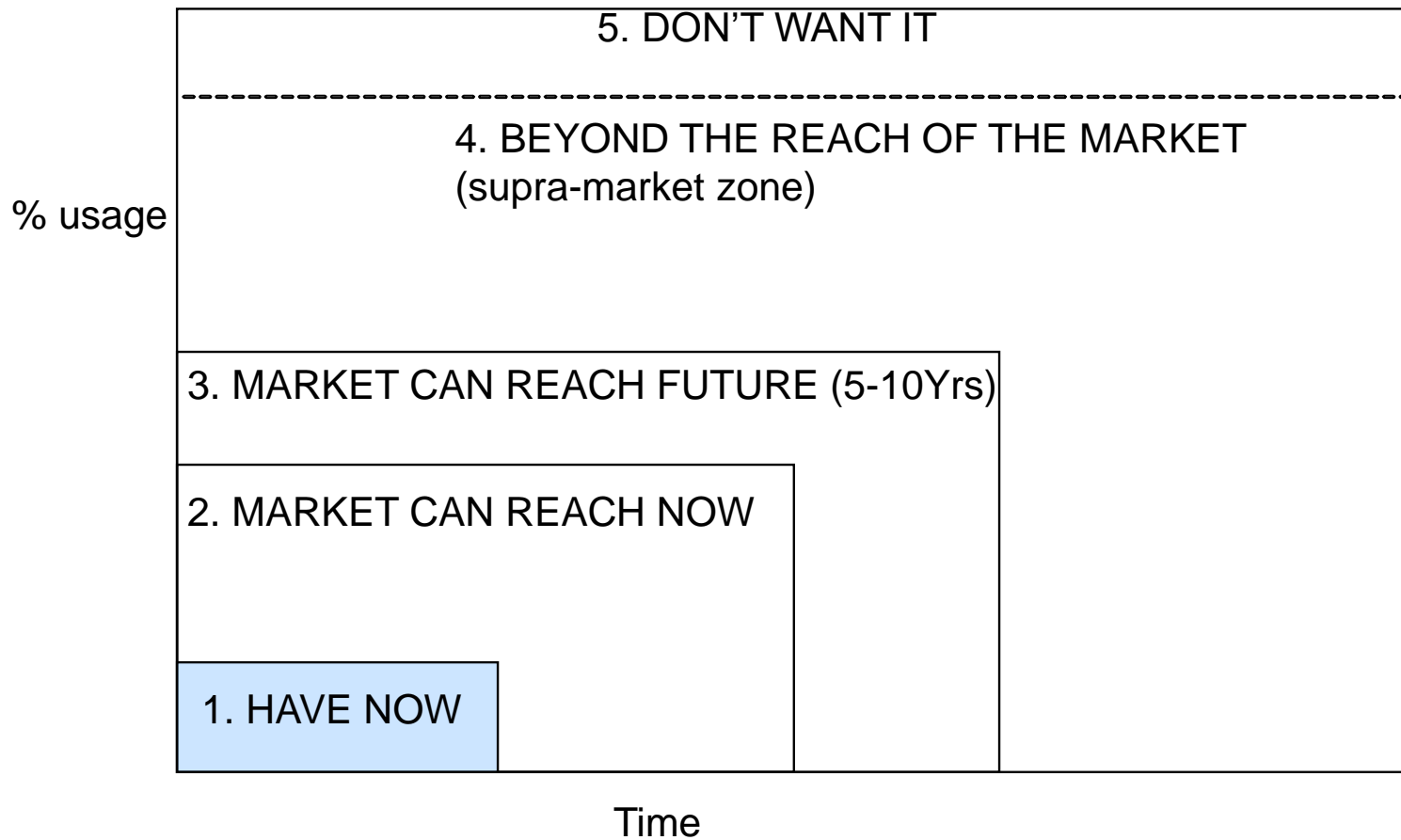11 November 2008, Civic Centre, Lagos

1. Introduction on Cenfri

- Independent non-profit research centre established to support financial sector development and financial inclusion through
  - Facilitating better regulation and
  - Catalysing market provision of financial services
- **Activities**: Research, advice, capacity building for regulators and policymakers
- **Current focus areas:** microinsurance (life and asset), health financing, AML/CFT, remittances, new distribution technologies and consumer financial behaviour
- Establishment supported by the **FinMark Trust** (www.finmark.org.za) and appointed to manage research on microinsurance, health financing and AML/CFT.
- Associated with **University of Stellenbosch Business School**
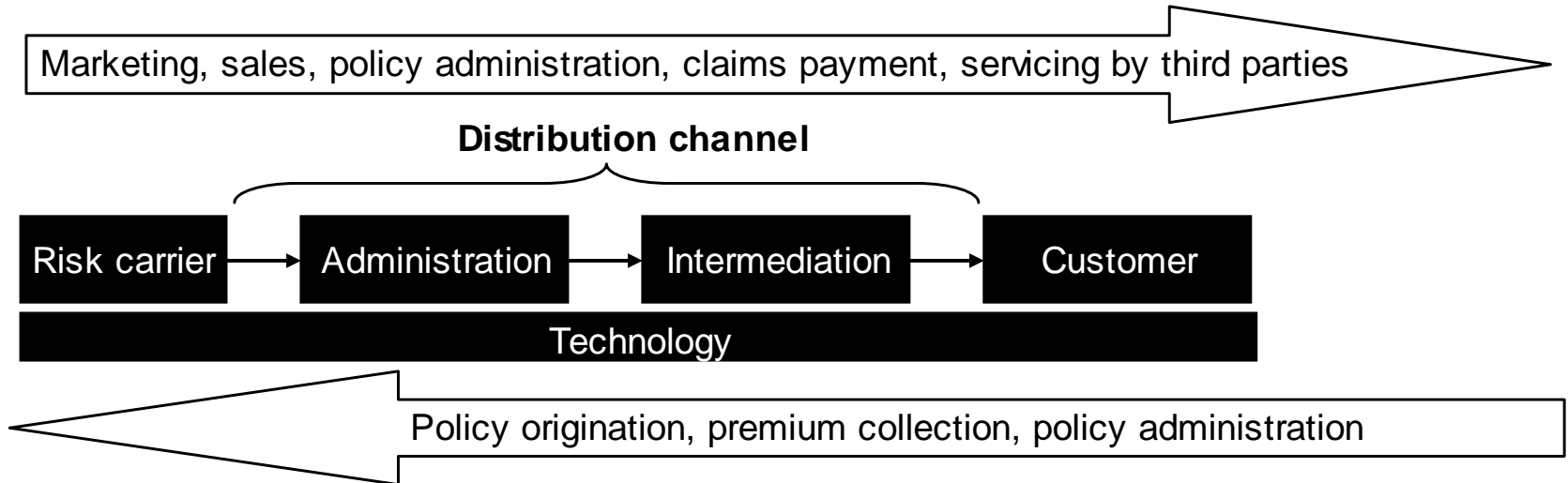- More information at **www.cenfri.org**

2. What is microinsurance?

□ Definition of International Association of Insurance Supervisors (IAIS):

- Insurance that is accessed by or accessible to the low-income population;
- Potentially provided by a variety of different providers;
- Managed in accordance with generally accepted insurance practices; and
- Does not operate in isolation, but forms part of broader insurance market, distinguished by particular market segment focus.
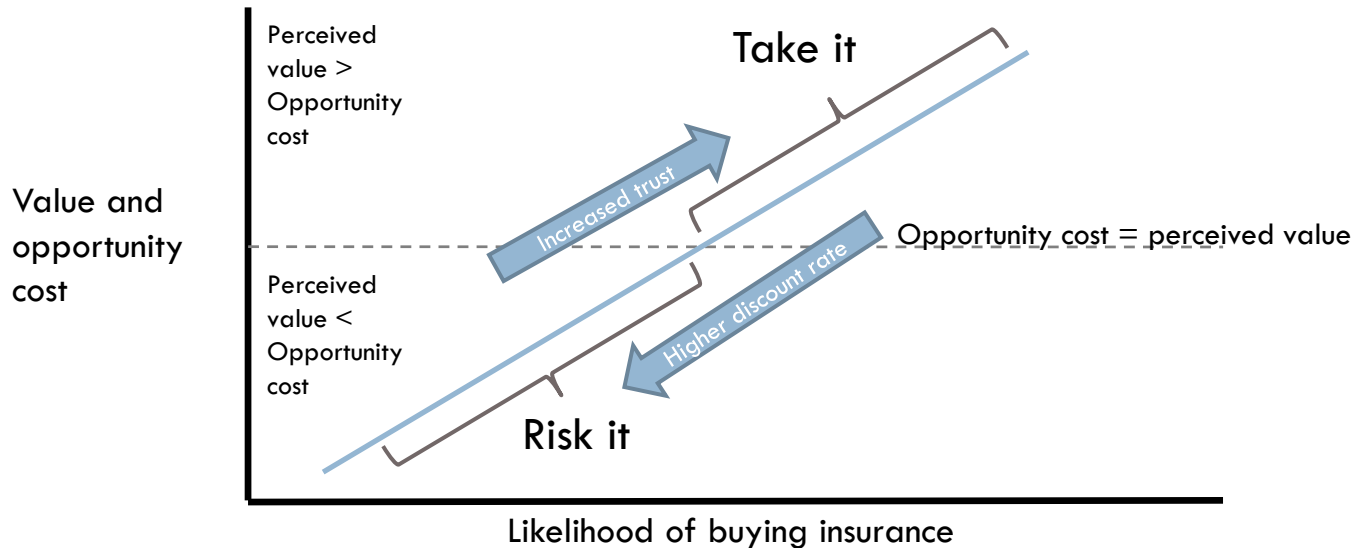
3. Access frontier

% usage

5. DON'T WANT IT

4. BEYOND THE REACH OF THE MARKET
(supra-market zone)

3. MARKET CAN REACH FUTURE (5-10Yrs)

2. MARKET CAN REACH NOW

1. HAVE NOW

Time

4. Insurance value chain

Marketing, sales, policy administration, claims payment, servicing by third parties

Distribution channel

Risk carrier	Administration	Intermediation	Customer

Technology

Policy origination, premium collection, policy administration

5. International experience
The microinsurance decision

Perceived value > Opportunity cost

Take it

Value and opportunity cost

Increased trust

Opportunity cost = perceived value

Perceived value < Opportunity cost

Higher discount rate

Risk it

Likelihood of buying insurance

- **Take it:** Perceived value > Perceived opportunity cost
- **Perceived opportunity cost**
  - Less disposable income means higher opportunity cost
- **Factors influencing perceived value**
  - Discount rate:
    - Over-discount future cash payments
    - Tangible benefit easier to assess than financial value
  - Trust: Likelihood of successful claim
    - Distrust commercial and trust mutual
  - Risk: Probability of risk event occurring
    - Underestimate probability of risk event occurring

6. International experience
Market evolution

- Unavoidable expense or loss of income: Need ≠ demand
- No existing insurance market : Limited knowledge and awareness and exposure to formal financial sector in general

2. Market making

1. Compulsion	**2. Re-invention**	**3. Derived demand**	**4. Passive aggregators**	**5. Individual agent-based sales**
Compulsory credit life insurance Insurance demand driven by need for credit	Group affinity and trust creates demand for insurance product Mutual insurer develop around shared member needs	Insurance take-up based on demand for other product/service Need for product/service: • Health service • Funeral service	Greenfields insurance sales Cell phones, retailers Client expected to buy insurance product out of own volition	Greenfield insurance sales through brokers/agents (active) Demand for insurance product created by convincing client of value through active sales process

Discovery of insurance service

3. Market extension

Positive experience

Negative experience

Lower-cost, passive aggregator models able to extend market:
- Pep/Hollard: Funeral insurance through retailer
- Codenza: Funeral insurance through utility company
- Allow faceless technologies in origination: Mobile phones

Aversion to insurance

Source: Chamberlain & Bester (2008)

7.1 Successful distribution models

- Insurance companies that target low-income market through retailers (with familiar product), e.g. Hollard, Max New York India

7.2 Successful distribution models

- Burial societies and mutual-based entities provided products to clients (<u>presence of trust</u>), e.g. burial societies in South Africa, mutual benefit associations (MBAs) in Philippines

7. 3 Successful distribution models

- ☐ Formal insurance companies selling products directly to clients, e.g. Delta Life (India), African Life (South Africa) – products are explained to clients
- ☐ But these models are more expensive, higher distribution costs because of market making function

8. Opportunities and challenges

- Establish distribution models that can <u>create</u> a microinsurance market

- Extend microinsurance beyond funeral and life insurance – understand clients needs

- Unlock passive sales models

- Credit life: address possible consumer abuse issues while leveraging off channel reach

Thank you!
Form more information please contact Anja Smith
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