



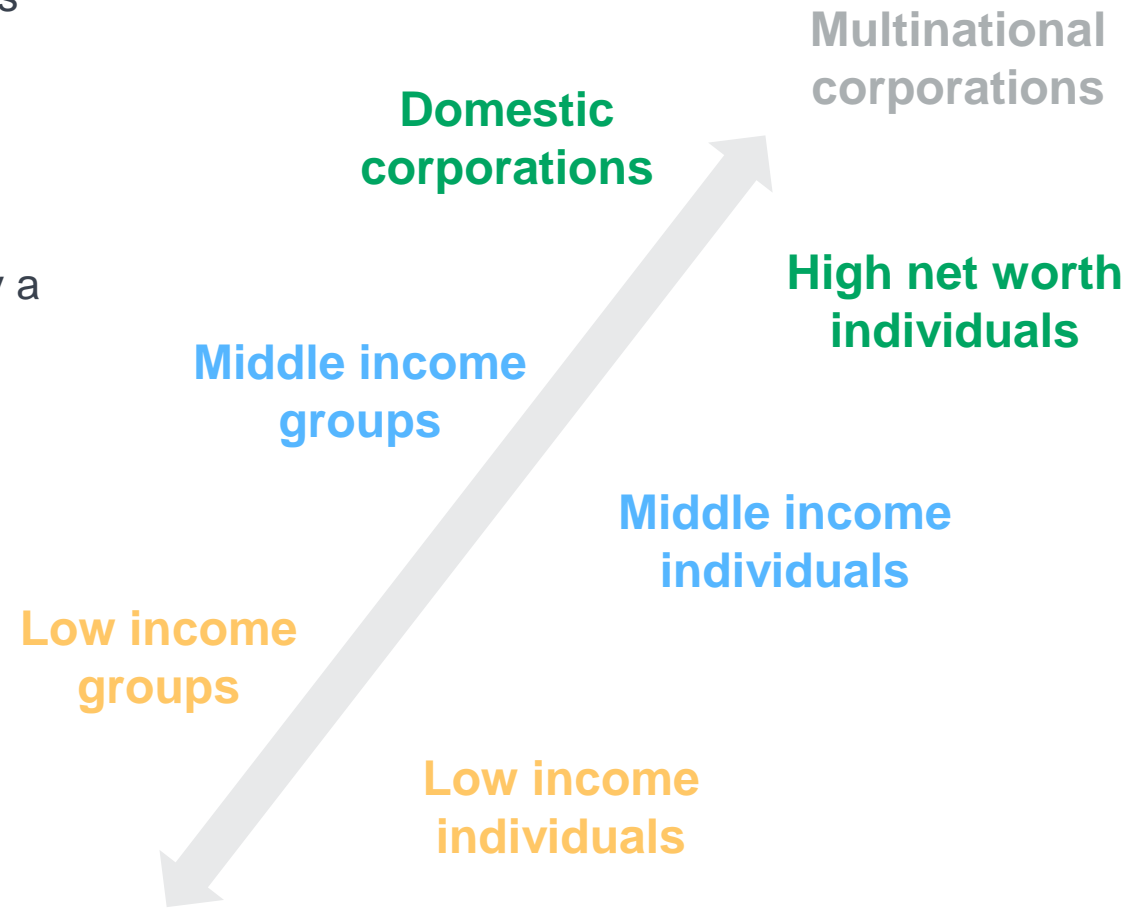
Role of Insurance in Strengthening Financial Inclusion

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What is Microinsurance?

- The International Association of Insurance Supervisors (IAIS) defines microinsurance as “protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.”
- It is accessed by low-income populations, provided by a variety of different entities, but run in accordance with generally accepted insurance practices.



Why enter the microinsurance space?

Sustainable development

Business opportunity

Purpose of microinsurance?

- Microinsurance serves different purposes for different institutions in the markets:
 - Commercial insurers see its potential as a way of reaching large under-served markets.
 - Development institutions, such as the World Bank and the United Nations, focus on its potential to secure poverty reduction.
 - Financial journalists and analysts highlight the size of markets at the “bottom of the pyramid”.
 - Academics argue that financial sector development is as essential as industrialization for sustainable economic growth.



Global landscape of microinsurance

	LAC 2013	Africa 2014	Asia 2012																													
Lives covered	48.6M / 7.9%	61.8M / 5.4%	170.4M / 4.3%	281 Million																												
Gross written premiums (USD)	828M	756M	829M	\$2.4 Billion																												
Claims paid	26%	32%	79%																													
Types of products offered (millions of lives covered)	<table border="1"> <caption>Types of products offered (millions of lives covered)</caption> <thead> <tr> <th>Product Type</th> <th>LAC 2013</th> <th>Africa 2014</th> <th>Asia 2012</th> </tr> </thead> <tbody> <tr> <td>Life (non-credit)</td> <td>32.5</td> <td>46.4</td> <td>83.9</td> </tr> <tr> <td>Credit life</td> <td>19.7</td> <td>16.4</td> <td>N/A</td> </tr> <tr> <td>Personal accident</td> <td>20.9</td> <td>13.1</td> <td>77.8</td> </tr> <tr> <td>Health</td> <td>7.6</td> <td>8.4</td> <td>29.2</td> </tr> <tr> <td>Property (non-ag)</td> <td>2.2</td> <td>4.5</td> <td>7.7</td> </tr> <tr> <td>Agriculture</td> <td>2.2</td> <td>1.1</td> <td>23.8</td> </tr> </tbody> </table>			Product Type	LAC 2013	Africa 2014	Asia 2012	Life (non-credit)	32.5	46.4	83.9	Credit life	19.7	16.4	N/A	Personal accident	20.9	13.1	77.8	Health	7.6	8.4	29.2	Property (non-ag)	2.2	4.5	7.7	Agriculture	2.2	1.1	23.8	
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Risks and Products Overview

Product overview

▪ Life Insurance:

- Life insurance is the most prolific microinsurance product in developing countries according to the number of policies sold.
- Most of this is credit life insurance, typically compulsory and covering the outstanding balance of a loan on the death of a borrower.
- Term life insurance is easy to provide, and has already proved to be profitable. Many MFIs offer mixed credit and life insurance.
- There is high demand for life insurance that provides more substantial coverage in case of death of the breadwinner.

▪ Health Insurance:

- Almost all surveys have shown that health insurance is the product most demanded by low income groups.
- One of the most important parts is for family members who, whilst providing care, may not be able to engage in productive work.
- The health microinsurance products that are available are limited, relatively small in terms of lives covered, and in some cases, donor-funded and subsidized. Nevertheless a number of schemes exist.



Product overview

▪ Property & Agriculture:

- Providing coverage for fire, theft and flood is difficult in low income markets due to:
 - lack of title deeds for informal housing, high claims handling costs, managing fraud risks etc.
- Demand for crop and livestock insurance is very strong in most rural areas.
- Catastrophic losses to property and agriculture are becoming more visible, and are attributed in many instances to the impact of climate change:
 - Reinsurers including Partner Re, Swiss Re and Munich Re, have become active in this market.
- Index insurance is being proposed as a solution to the problems of property insurance, especially for drought in the agricultural sector and catastrophic risks such as floods and earthquakes:
 - Payments depend on an objective index such as rainfall level or earthquake magnitude.
 - Once an index is calibrated well with actual losses, underwriting and claims costs for the insurer are minimal and moral hazard and fraud are virtually eliminated.
 - The bright future of these products have led reinsurers such as Munich Re and Swiss Re to heavily invest in research and development in this area.



What has worked thus far in microinsurance?

SUAVE microinsurance products



Simple policies, conditions, marketing, procedures.

Understood risk pooling, procedures, coverage.

Accessible purchase, premium payments, claims.

Valuable matches needs, fair price and coverage.

Efficient for insurers, delivery channels, policyholders.

Sustainable microinsurance products

- Respond to client needs.
- More valuable than current methods.
- Claims speed.
- Fair pricing.
- Product evolution.
- For insurers and distributors.

Value for clients



Magical
Balance

**Business case
for insurers
& distributors**

Summary of lessons from microinsurance champions worldwide

SUAVE products	Include clients in product development	Demand research	Distribution is key	Trust and client value	Flexible regulator
<ul style="list-style-type: none">▪ Simple▪ Understood▪ Accessible▪ Valuable▪ Efficient	<ul style="list-style-type: none">▪ Demand research▪ Prototype design▪ Pilot testing▪ Review	<ul style="list-style-type: none">▪ Risks and coping strategies▪ Perceptions▪ Capacity to pay▪ Distribution	<ul style="list-style-type: none">▪ Accessibility▪ Trust▪ Likelihood to buy from	<ul style="list-style-type: none">▪ Insurance is based on trust▪ Diff. types of client value	<ul style="list-style-type: none">▪ Flexibility▪ Multi-stakeholder cooperation▪ Revisions▪ Path to formalization

Microinsurance Around the World

Africa

▪ Uganda:

- In 1997, American International Group (AIG) Uganda entered into an agreement with a microfinance institution (MFI), called FINCA Uganda, to offer insurance products to FINCA's credit clients.
- The resulting personal accident product was one of the first success stories where a large insurance company proved that microinsurance could be profitable in a low income market.
- Six years after the introduction of the product in 1997, most Ugandan MFIs were offering it to their clients. It led to 1.6 million lives being covered in three countries.



▪ South Africa:

- South Africa has one of the highest insurance penetration rates in the world, yet poverty rates remain high and low income groups still find it difficult to access financial services.
- The Financial Sector Charter, which came into effect in 2004, was drafted by industry representatives and other stakeholders with the objective of “transforming the financial sector.”
- This triggered innovation in the microinsurance sector in order to increase in the insurance penetration in the low income communities.



Asia

▪ Philippines:

- There is a typhoon index crop insurance programme for rice farmers and pays out to a policyholder if their farm lies within the path of the typhoon.
- The sum paid out depends upon three factors: coverage, distance from the typhoon path and wind speed.
- The product is marketed by MicroEnsure, a microinsurance agent, which has also led its development.
- Data for the index is provided by the Japan Meteorological Agency. Banks, MFIs, Cooperatives and farm suppliers sell the policies.



▪ Indonesia:

- Inhabitants of certain areas of Jakarta are being offered flood insurance in the form of a card valid for one year.
- If water levels at a given gauge rise above the trigger, holders of the card can claim a payment.
- As an index product, the flood insurance requires neither assessments of flood risk, nor of property values, nor a claims adjustment procedure in case of damage.
- Coverage can be increased by buying several cards.



Asia Contd.

▪ India:

- In 2002, it became a legal requirement for insurers to provide insurance to rural and social sectors meaning the microinsurance volume could not fall below a certain point.
- Because the new legislation ensured that all commercial insurers are involved in microinsurance, there has been a surge in product innovation and experimentation with new distribution channels.
- Sanctions for failing to meet quota targets include fines and possible revoking of licenses.
- The penetration in the microinsurance domain is small in India but is on the uprise.



▪ China:

- Microinsurance development in rural China is mainly regulator-driven and often discussed in a social security context, a model sometimes labelled as “government support, peasant participation, commercial operation”.
- A diversity of products are currently offered in pilot projects by many of the large insurance companies. They include health insurance, livestock insurance, credit insurance, migrant worker insurance and products for old-aged people.
- The vast size of the rural Chinese market, an estimated 800 million people, has attracted the interest of international insurers. Zurich Financial Services, for example, is engaged in microfinance initiatives in China.





Thank you

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