



## MICROINSURANCE CONFERENCE

21– 23 NOVEMBER 2006

CAPE TOWN

Presented by  
**BOB GORDON**

11/27/2006



## LOOKING TO THE FUTURE

- **China and India's combined population approx 2.4 billion**
- **The developing world currently accounts for over half the Earth's population and growing**
- **China and India will become the world's two largest insurance markets**
- **Potential for growth in the financial sector including insurance is tremendous**
- **It starts in the developing world with those joining at the bottom rung in the economy**


11/27/2006



## HARNESSING THE POTENTIAL

- **Legislation, regulation, cultural and religious differs country to country**
- **Access to all major markets is open subject conditions**
- **It is difficult to adopt a common retail approach across territories**
- **In each country the low income market should be segmented**

11/27/2006




## GOVERNING PRINCIPLES TO ENTRY

- **Can we write sufficient volume of premium in a given time to justify the effort**
- **Can we generate a sufficient profit margin to meet our standard criteria**

**The definition of the word “sufficient” will vary company to company**

11/27/2006



## TO ANSWER THESE QUESTIONS WE NEED RESEARCH TO –

- identify the actual market segment, appreciate the customer's needs and buying habits
- understand the exposures involved including any potential catastrophe risks as an example conflagration in an informal settlement
- develop a suitable product for the specific sector and a sustainable pricing model
- identify a dependable distribution system which is cost effective. The word dependable should be emphasised
- develop an efficient service model to process the business, collect premium, and fast track claim's settlements
- take account of new IT technologies which are now available that can be utilized to sell and service the business

11/27/2006



## IDENTIFIABLE SEGMENTS IN LOW INCOME MARKETS

1. People in the informal economy or in casual or seasonal employment without formal housing
2. People on regular very low incomes in full-time employment and perhaps with very basic formal housing
3. People in the next income category who have various amounts of disposable income and the potential to have housing and transport

11/27/2006





## SERVING THE NEEDS OF CATEGORIES 2 & 3

- Funeral insurance has traditionally been the one understood and bought cover
- Burial societies / funeral homes and credit unions preciously filled the gap
- In need people resorted to relatives, friends or loan sharks
- Insurance companies have now started targeting people in formal employment
- Most effective has been sales via workplace payroll deduction programs
- Sales to the workplace in the life market are by agents - tied, semi-tied and independent and to the larger companies for life and general by brokers
- Individual sales to Category 3 by agents and small brokers
- Mechanisms in place to penetrate Categories 2 & 3

11/27/2006



## THE BIG CHALLENGE CATEGORY 1

- Payment of insurance premiums often competes against basic necessities such as putting food on the table
- There is a general lack of understanding and disinterest in insurance with the exception of funeral products
- Individual access for an insurer is difficult and cost of service extremely high
- Those who enter the market for financial support can obtain basic insurance education and are generally captured in the insurance net
- Sometimes these programs are unregulated as occurs with burial societies, funeral home programs etc.
- When they become banked distribution can be made via bancassurance programs
- Other effective distributors can be retailers or even cell phone companies
- Cautions – Claims controls and settlements / Product design to cater for the sector


11/27/2006



## MATTERS FOR CONSIDERATION BY REGULATORS

- Educating, selling, processing and collecting payments separately for life and general products sold to the bottom segment of the market duplicates cost for both the insurer and customer
- Entities which carry insurance risk operating outside current insurance legislation should be pulled under local regulatory control and if appropriate amendments made to the insurance law
- Entities which provide intermediary advice and services also need to comply with local regulations
- From a regulatory viewpoint consideration should be given to the introduction of a new microinsurance category of insurance which could be sold as a line of business by both life and general companies. The limits should be fairly low to suit the environment. Life cover can be restricted to risk only with no savings products permitted. Other entities such as burial societies etc would report only on this line. Governments would be able to identify the market statistics for the low income market from the returns

11/27/2006



## MATTERS FOR CONSIDERATION BY REGULATORS (cont.)

- Permitted coverage should include death from accident or natural causes, funeral benefit, permanent and temporary total disablement including these benefits for the identified spouse and identified children, loss or damage to personal or business property including loss of income, legal liability for loss or damage to third parties. Limits may be the equivalent of US\$2000 for death and disablement and \$10,000 for property / liability
- Different consumer regulation may be applied to microinsurance business, in those territories which have such legislation. This could permit lenders in microfinance institutions to provide compulsory insurance schemes for borrowers

11/27/2006

