

The Magical Balance in MicroInsurance

What does it mean
for us?

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Answering the questions!

Is there value?

Is there a business case?

YES

and

NO

First, consider nuance



What does this mean to us?

- The importance of this work is limited if we do not take advantage of the lessons

➤ MI 1.0

- “Micro” insurance
- Low penetration
- High touch
- Broad products
- Limited consumer protection

➤ MI 2.0

- Maybe not “Micro”
- Larger distribution (scale)
- Low & high touch
- Nuanced products (segmentation)
- Appropriate consumer protection

New look at value and business case

“The actuary’s guess”

MYTH? “The greater the gap between the premium and the stated coverage, the greater the value.”



- This is generally not sufficient to understand how low income clients finance a shock with insurance, and the role that insurance plays in relieving the financial burden

"There must be some mistake. According to our actuary tables I'm going to live to 83."

Claims ratio:

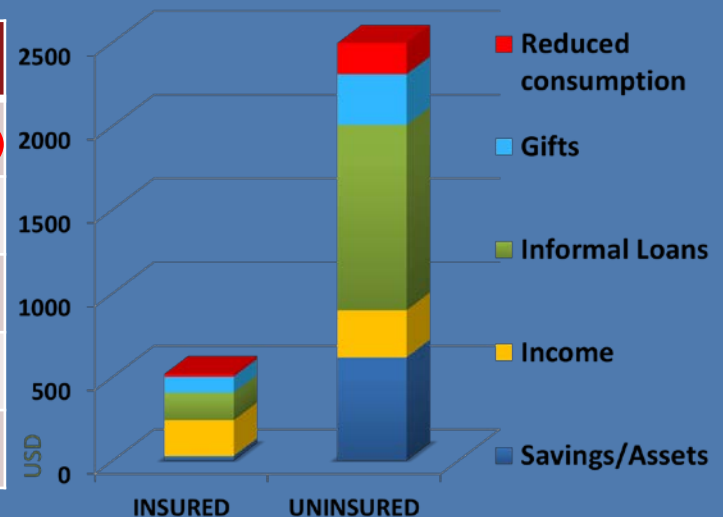
MYTH? “We need 60 [70, 80 (fill in the blank)] percent claims ratios for there to be value to clients.”

Dynamic adjusters

- Expanding distribution
- Mass market
- Technology
- Costs of education / marketing
- Consumer protection

Funeral example in Colombia

Key P&L Items	Ratios
Claims	22%
Commission plus	45%
Operating costs	15%
Profit	18%
Total	100%



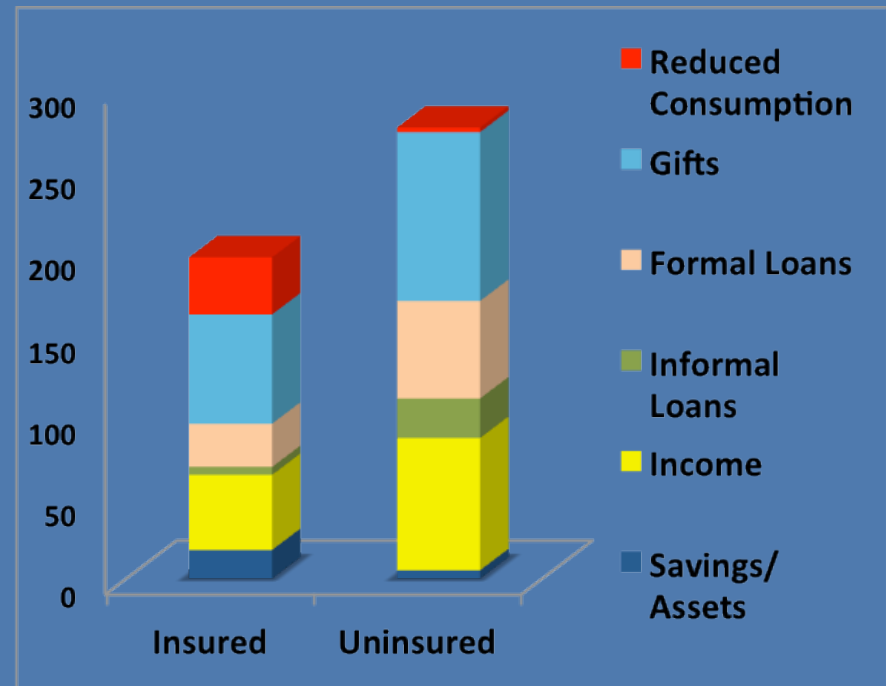
Time, evolution, and competition may bring improvements

Claims ratio:

Health example in Kenya

Key P&L Items	Ratios
Claims	104%
Commission	13%
Operating costs	35%
Profit	-52%
Total	100%

2010



MYTH? “Insurance is the answer to risk mitigation”

➤ By looking at what people do to manage risk, we can see the value of other financial products:

- Better savings options
- Credit availability
- Links to remittances

Microinsurance is
a piece of a
strategy

People will continue to use other methods than insurance.

These tend to be more burdensome.

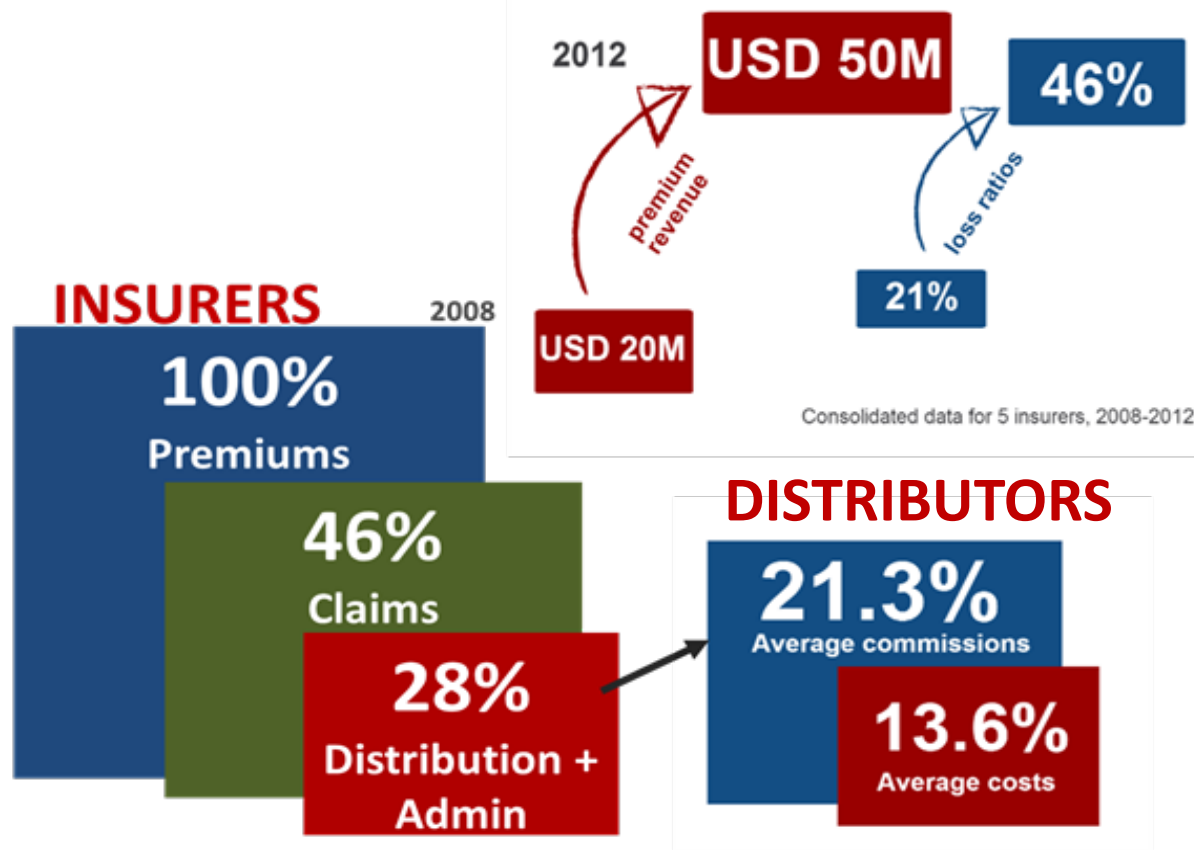
New products could be easier and cheaper for people to manage.

This is an opportunity for other financial services.

IF we understand consumer financial behavior.

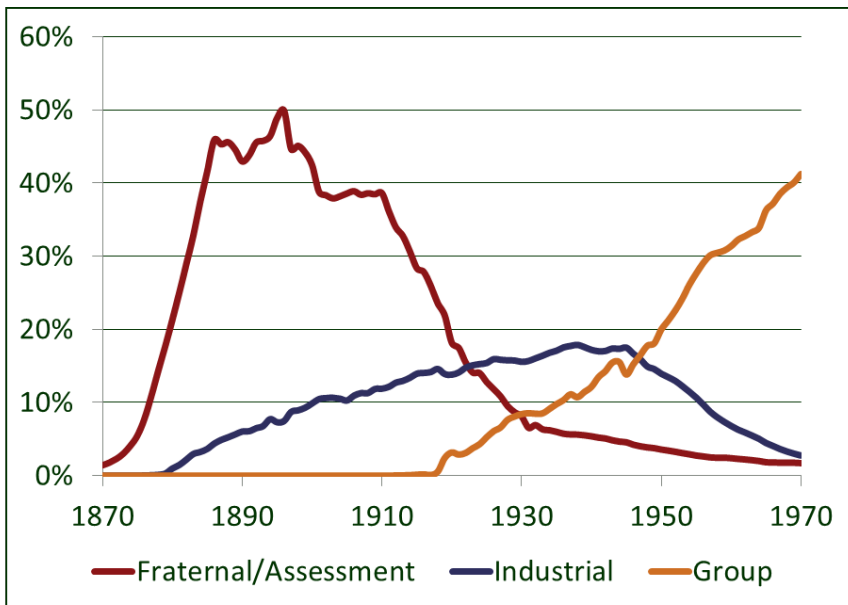
Need to evolve beyond a broad product focus towards a “Response and Service” focus

- Still need S.U.A.V.E. products!
- But what can drive the market to scale is service (even with mandatory / automatic products)

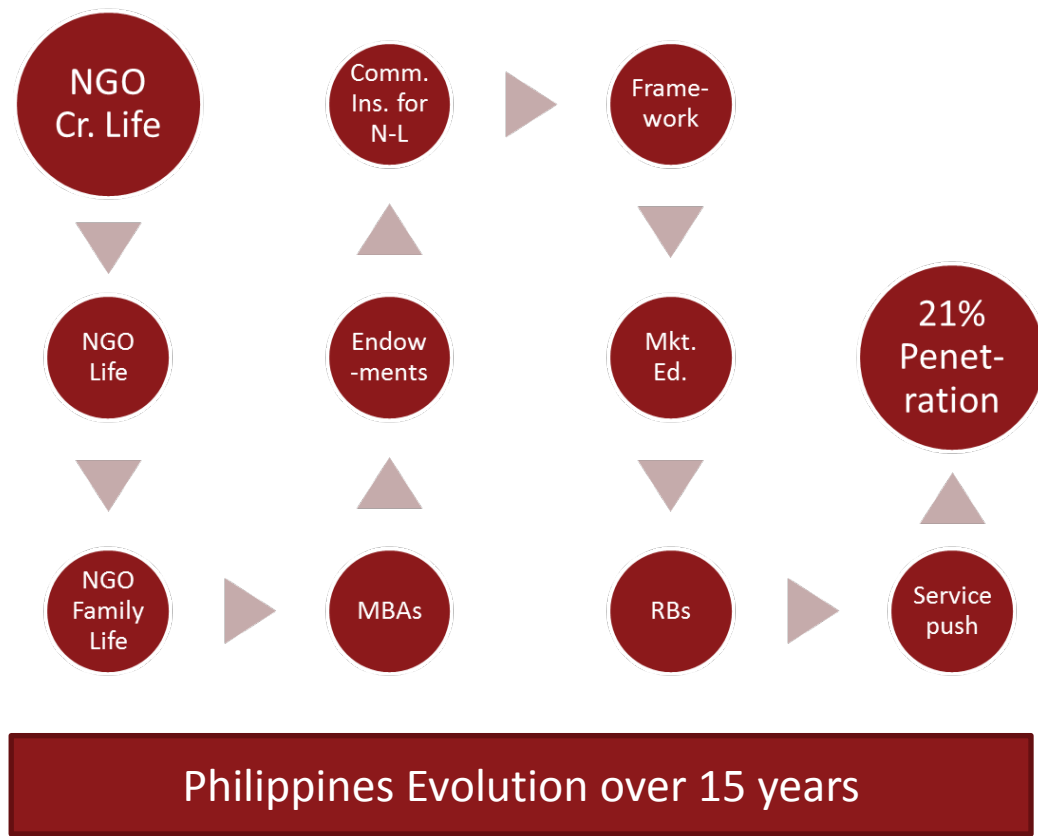


This works because: distribution is available; demand is growing due to service; public efforts improving environment; and competition!

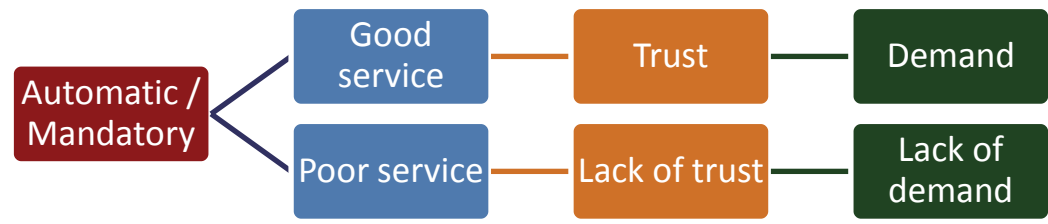
Evolution



Fraternal, Industrial, and Group Share of Life Insurance in Force in U.S. Companies, 1870-1970



Can we speed up the evolution?



We can learn from insurance evolution, which started with “microinsurance”

Mass market

- ▶ If the mass market is everyone:
 - ▶ Does “microinsurance” matter?
 - ▶ Will the “poor” be left behind?
 - ▶ Are mass products part of the evolution from mandatory to voluntary?



Health



RICK

“Can not do comprehensive health without a subsidy”



BARBARA

“Financial value is not the only piece of value for health. Behavioral effects are important.”

(Micro)insurance 2.0

- What does MILK add to our understand of where to go?
 - ▶ Help us see below the surface
 - ▶ Focuses attention on the magical balance
 - ▶ Recognizes the fundamental need for scale
 - ▶ Focuses on a broader array of actors
 - Mass market
 - Subsidy providers
 - ▶ Exemplifies the benefits of knowledge
 - Clients
 - Operations

The MicroInsurance Centre

"Developing partnerships to insure the world's poor"



“Drink” MILK for better microinsurance

www.MicroInsuranceCentre.org

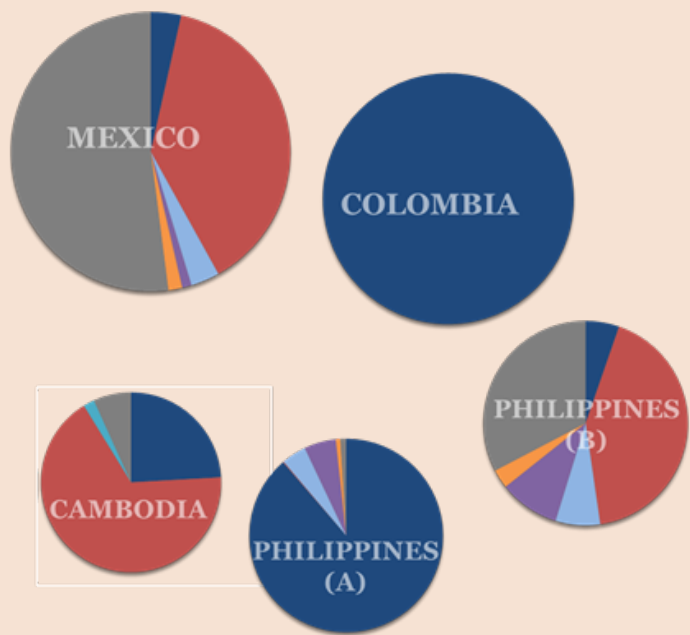
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Need, demand, scale and design

- PAID FUNERAL COSTS ●
- PAID LOAN ●
- SAVED ●
- INVESTED ●
- INCREASED SPENDING ●
- TREATED AS INCOME ●
- OTHER USE ●



Implications for product design

No longer:
 “I have life insurance for you”
 Or
 “Only fast claims payment provides value”



Calculating

Understanding existing financing mechanisms can maximize value.

How is cash used?



Scheduling

Consider the financing tools available to clients at different times and for different needs.

When is cash needed most?



Honoring

Well informed clients made better decisions and are more satisfied.

Create realistic expectations!

Answering the questions!

➤ Do clients get value from microinsurance?

Key lessons:

- Microinsurance is only a part of risk mitigation
- Value is often limited due to:
 - product design
 - mix of need and response
 - including amounts and timing
 - Ambiguity
- Value is only a component of demand
- Health MI can add real value to behavior



Answering the questions!

- Is there a business case for microinsurance?

Key lessons:

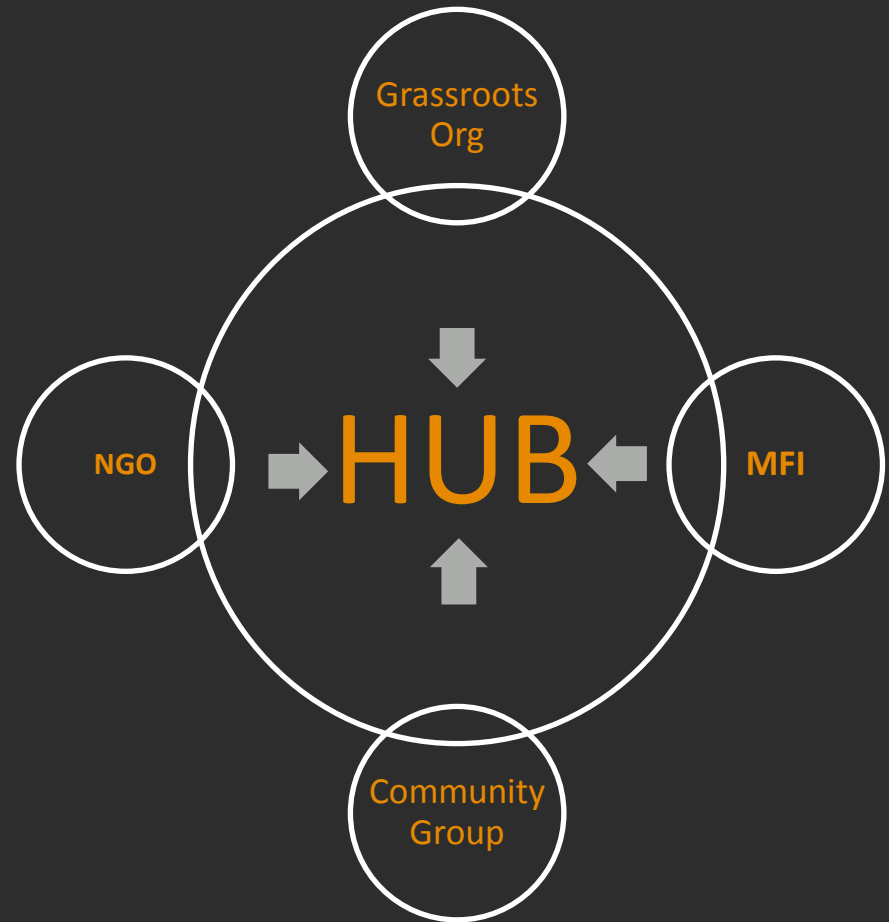
- Life, Health, and CAT
- Subsidies
- Admin costs drive health MI costs
- Competition
- SCALE



Donors and MI

- Where should donors focus?
- Don't waste money on comprehensive health MI if there is no government support
- Hub and Spoke with hub supported by donors can be positive – AFYA Yetu

Donor Supported, Shared Resources



CAT covers?

- Can not find any that have been around for 5+ years
 - ▶ Data from any is hard to get
- Seem to be driven by subsidy, and require subsidies.

