



The Landscape of Microinsurance in Latin America and the Caribbean - 2014

Preliminary Briefing Note

The World Map of Microinsurance



Co-funders



Published by: Microinsurance Network
www.microinsurancenetWORK.org

Co-publisher: Munich Re Foundation

Co-funders: Bradesco, CNseg, IDB, The Luxembourgish Government, World Bank Group's Global Index Insurance Facility

Authors: Michael J. McCord and Katie Biese of the MicroInsurance Centre

Researchers: Jackie Rogers, Mariah Mateo Sarpong, Alyssa Villaire, Sarah Ebrahimi, Regina Cornish, Felipe Botero, and Leticia Gonçalves

The authors greatly appreciate the institutions, aggregators and others who provided their data and comments.

The publication is protected by the law from the 18th April 2001 of the Grand-Duchy of Luxembourg concerning copyright databases and related laws. It is strictly prohibited to reproduce an article from this publication, in whole or in part, without the written consent of the publisher.

Layout: cropmark.lu

© 2014 by Microinsurance Network. All rights reserved.

The Microinsurance Network is kindly supported by the Luxembourgish Government.



THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG

Disclaimer: The views, opinions and theories as contained herein are solely the views, opinions and theories of the authors and do not necessarily reflect the views, opinions and theories of the Microinsurance Network, its members and/or its affiliated institutions. The Microinsurance Network makes no representation as to the accuracy, completeness, or reliability of any information, views, opinions, and theories as may be contained herein. The Microinsurance Network hereby disclaims any liability with regards to this.

This preliminary briefing note summarises some of the key insights and trends from the 2014 Landscape of Microinsurance in Latin America and the Caribbean study which will be published in the first quarter of 2015.

This year's landscape study identified 48.6 million people in the Latin America and Caribbean region as covered by at least one microinsurance policy, versus 45.5 million people identified in the 2012 study (based on 2011 data). The study identified 6.8% more lives covered than in 2011. However, the comparable rate of growth for institutions who reported data in both studies is more modest at 2%. The "microinsurance explosion" observed for the period 2005 to 2011 (with 14% compound annual growth rates) has been replaced by a slower growth phase with continued dominance of life and accident products.

What's new?

- The trend towards mass market insurance in the Latin American and Caribbean market is obscuring the differentiation between middle-income and low-income clients, and several insurers reported shifting from microinsurance to the mass market.
- The total identified microinsurance written premiums in the region amount to almost USD 830 million, up from USD 747 million in 2011¹.
- The rate of growth in premiums outpaced the growth in the policyholder base. The median claims ratio across products is about 25%, with credit life having the highest median claims ratios, at around 45%.
- The array of new distribution channels seen in the 2012 study appear to be more effectively leveraged by 2014, reflected by more clients per product than traditional channels like microfinance institutions (MFIs).
- Commissions have become an issue for some insurers offering microinsurance, particularly those working with non-traditional channels. While most channels seek commissions of between 10% and 30% of premiums, close to one quarter seek more than this, up to 60%.

Key Numbers

**Of all countries in the region,
21 had microinsurance activity in 2013**

**USD 830 million in microinsurance
premiums**

7.9% of total population

**94 providers reported data
for over 200 products**

48.6 million total people insured²

- 32.9 million – Life (non-credit)

- 20.8 million – Accident

- 19.7 million – Credit Life

- 7.6 million – Health

- 2.7 million – Property

- 2.2 million – Agriculture³

¹ Written premiums were reported at USD 861 million in the 2012 study. To facilitate comparability, premiums have been adjusted to 2013 dollars to account for exchange rate fluctuations.

² Note that the volume of coverage by product type adds up to more than the total covered lives, reflecting that many products are offered as riders and add-ons to a primary microinsurance product. Thus many people are protected against more than one type of risk.

³ Agriculture covers include government-subsidised insurance programmes, which were not included in the 2011 study.

Growth

Eight institutions have entered the market in recent years and many others have launched new products, yet there has been very limited evolution in terms of the types of products offered. New products launched since 2011 still largely cover life or personal accident, with very few lives being reached with health, property, or agriculture covers (Figure 1).

A significant number of products were discontinued or altered to appeal to the mass market which, together with limited growth in outreach by products that continued across the study period 2011 to 2013, has resulted in slow growth in terms of total lives insured in the region, and limited evolution in terms of product diversity (Figure 2). This situation may in part reflect the overall trend towards mass market insurance in the region. The lack of product diversity may derive from the increasing availability of social security programmes throughout the region, which may reduce the perceived opportunities to offer certain microinsurance policy types, e.g. health.

Figure 1: Lives covered by new products launched since 2011

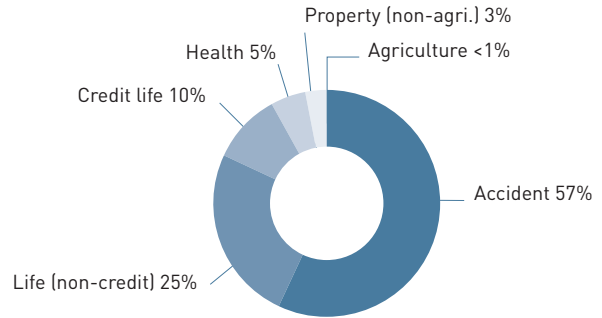
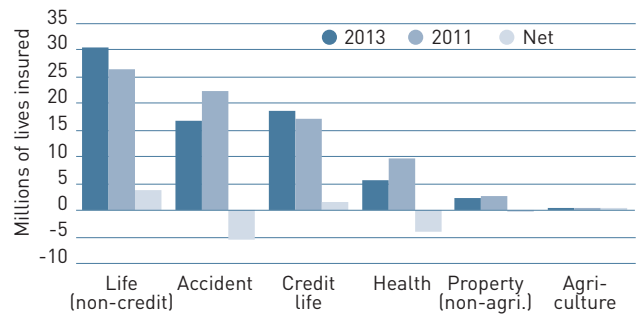


Figure 2: Lives covered by product type, 2011 and 2013



Note: figure represents comparable data only (companies reporting in both the 2012 and 2014 studies, plus new market entrants).

Distribution

A wide variety of distribution channels continue to be used. Though MFIs remain a key distribution channel, other non-traditional channels such as retailers, utilities, mobile network operators (MNOs), and banking correspondents, on average reach more people per product and also offer a surprisingly high proportion of the primary health and property covers in the region (Figure 3). Whilst facilitating greater outreach through product variety, such channels often solicit higher commissions (Figure 4), potentially decreasing value for clients. The complexity of products offered is also more limited; even the health and property products cover only 'small slices' of a comprehensive package, such as a specific critical illness.

Figure 3: Primary product type by channel (lives covered)

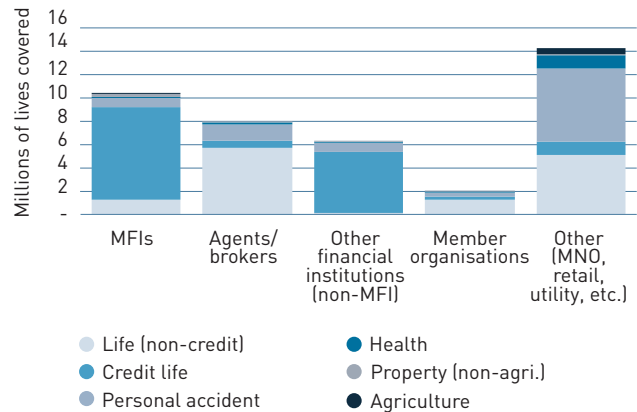
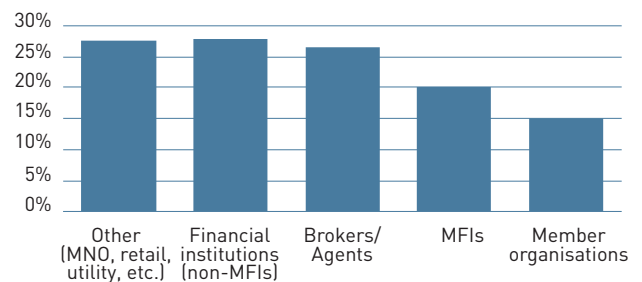


Figure 4: Average commission by distribution channel type



Microinsurance in Latin America and the Caribbean

Preliminary results

Percentage of population covered by microinsurance



7.9% of the region's population is covered by microinsurance (vs. 7.6% in 2011)

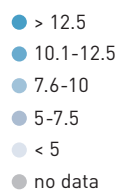
Market still dominated by limited value **life and accident** products, comprising **85%** of all identified covers (vs. 84% in 2011)

46 new products launched vs. 31 products discontinued or altered for the mass market

Alternate distribution (non-MFI) channels accounted for about **75%** of the identified lives covered in 2013

Key performance indicators:

- Premiums: USD 830 million
- Median commission rate: 20% (21% weighted average)
- Median loss ratio: 25% (26% weighted average)

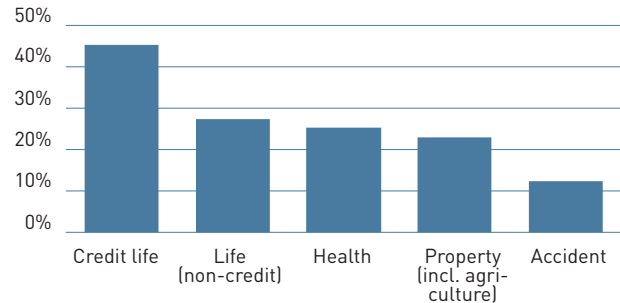


Premiums and claims

The total microinsurance market amounted to almost USD 830 million in premiums in 2013. Looking at comparable data only, premiums show growth of just under 3% since 2011. However, excluding Brazil where some large players experienced major fluctuations, premium growth is significantly higher, at more than 30%. This rate of premium growth, compared to the very limited growth in the related policyholder base, may be a further indication of the trend to move upmarket.

Loss ratios throughout the region and across product lines are relatively low, with a median of about 25%.⁴ Almost three-quarters of the reported products have loss ratios of less than 40%; in 2011 only 60% of products had loss ratios below 40%, suggesting a downward trend. Credit life products have the highest median loss ratio, which may reflect competition in this line of business, as well as lower administration expenses and better experience data.

Figure 5: Median loss ratios by product type



About the World Map of Microinsurance

The Landscape Study of Microinsurance in Latin America and the Caribbean 2014 is part of the World Map of Microinsurance Programme of the Microinsurance Network, co-published with the Munich Re Foundation. The study was undertaken by the MicroInsurance Centre and co-funded by Bradesco, CNseg, Inter-American Development Bank, the Luxembourg Government and the World Bank Group's Global Index Insurance Facility.

The World Map of Microinsurance programme will institutionalise all previous, current and forthcoming landscape studies through an interactive map and resources. For more information, please visit: <http://www.microinsurance-network.org/world-map-microinsurance>.

For the purposes of this study, products should meet the following criteria to be considered as microinsurance:

- Developed with the intention of serving low-income people (i.e. not just insurance that is also purchased by low-income people).
- Government must not be the sole risk carrier (thus not social security programmes—social security will be analysed as a separate contextual factor); the programme has to be managed on the basis of insurance principles.
- Modest premium levels/affordability: premium values based on per capita GDP 2012: Life and accident = up to 1%, Health = up to 4%, Property/Agriculture = up to 1.5%.

This 2014 study, which builds on the regional studies from 2007 and 2012, also requested information about subsidies, commissions and administrative expenses. For the first time, a separate, shorter questionnaire was designed for those offering mass insurance as well as those that have chosen not to offer microinsurance. Detailed information about donor and investor interventions in microinsurance, as well as regulatory efforts and social security was also gathered and the results will be published in the final report of the study in the first quarter of 2015.

Data was self-reported by the insurers via a primarily quantitative questionnaire. In order to secure responses, individual companies were assured of data confidentiality, and thus only aggregate information is provided in the report. Insurers submitted data on a voluntary basis, and some refused to provide any information. Some provided data based on their own or their regulator's definition of microinsurance. Therefore, please note that we consider the information presented from this study to be microinsurance information that was identified, and is not absolute.

⁴ Claims data was reported for 2/3 of products, representing just over half of total premiums.