A Business Case for Microinsurance

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Agenda

- Purpose and methodology
- Experiences with insurers
- Framework for assessing profitability
- Case studies
  - Old Mutual South Africa
  - CIC Kenya
  - ICICI Lombard India
- Independent case studies
  - Malayan Insurance Philippines
- Insights and conclusions

Purpose and Methodology

- Consider the question: "Under what circumstances can microinsurance be profitable for traditional insurers?"
- Case study approach to analyse the microinsurance initiatives of four insurers across three regions
  - Selection of insurers based on availability of sufficient experience and a variety of products
  - Profitability of the microinsurance initiatives analysed using a combined approach of investigating key financial indicators and qualitative assessment of the underlying drivers of profitability

Our Experiences with Insurers

- Willingness of insurers to participate
  - Indicates the competitiveness of the space, insurers consider microinsurance business a serious commercial venture
- Ability to obtain data
  - Availability of data and quality of information
  - Managed under different departments and not monitored separately
- Stage of development of initiatives
  - Relatively short-track records, although have reached significant numbers of covered lives, small compared to the market
  - Iterative learning processes, implementing changes based on experience, which are still at early stages

Framework for Assessing the Profitability of Microinsurance Initiatives

Profitability

Creating value for shareholders

Scale	Claims costs	Other costs
Defining and accessing market	Pricing for risk	Distribution and administration costs
Valued benefits & affordability	Anti-selection & claims fraud	Working with groups
Servicing and customer satisfaction	Reinsurance, claims volatility and covariant risk	Leverage off existing infrastructure
Incentivisation of distribution channels		Simplicity

Risk management

Monitoring and feedback

Structure of insurer and market context

Case Studies

- South Africa
  - Old Mutual South Africa – funeral insurance initiative
- Kenya
  - CIC Kenya – credit life and Bima ya Jamii initiatives
- India
  - ICICI Lombard – weather index and health insurance initiatives

Old Mutual South Africa: Overview of Initiative

- *Market:* Members of burial societies and funeral parlour schemes (formalises informal mechanisms)
- *Product:* Burial Society Support Cover – funeral cover that provides a cash benefit on the death of the member or a family member
- *Distribution:* Salaried agents responsible for selling and servicing the product
- *Structure within insurer:* Separate business unit created to give focus to the initiative
- *Context:* Highly competitive market, number of players vying for funeral insurance business, well-established existing demand for product

Adapted existing business model for the low income market

Old Mutual South Africa: Profitability

QUANTITATIVE MEASURES	2009	2008	2007	2006
Gross insurance profit ratio	3%	(18%)	(31%)	(45%)
Growth in gross written premiums	(18%)	2%	51%	63%
Number of covered lives	400,000	440,000	580,000	490,000

- *Challenges to profitability of business due to adverse claims experience and failure to achieve sufficient scale to cover distribution costs*
- *Decline in covered lives and premium volumes due to the exercise to improve quality of the book*

Old Mutual South Africa: Key Insights

- Scale
  - **Existing demand** for funeral cover in the market
  - **Group-based marketing** through burial societies and funeral parlours – challenges with small group sizes
  - Reduction in policy volumes as a result of business clean-up
- Managing claims costs
  - **Active monitoring of experience** used to assess fair premium for each society
- Cost saving
  - **Costly distribution model** but service aspect important – needs to gain scale to be profitable
  - Leveraging off existing structures and some support from other units

Improvements in profits linked to focus on quality of business

CIC Kenya: Overview of Initiative

- *Market:* Members of SACCOs and MFIs
- *Credit Life Product:* Compulsory credit life, covering the credit provider for outstanding amount of loan in event of borrower's death or permanent disability
- *Bima ya Jamii:* Voluntary bundled accidental death and disability, funeral expenses and health cover
- *Distribution:* CIC Kenya markets to SACCOs and MFIs, MFI staff and SACCO agents for voluntary products, exploring outsourced agency force
- *Structure within insurer:* Move to separate business unit, improved monitoring of performance
- *Context:* Leveraged off existing relationships with SACCOs and MFIs

Started with compulsory product expanded into more risky product to same groups

CIC Kenya: Profitability

QUANTITATIVE MEASURES	Credit Life			Bima ya Jamii		
	2009	2008	2007	2009	2008	2007
Gross insurance profit ratio	66.1%	65.7%	68.7%	(27.4%)	51.4%	60.3%
Growth in gross written premiums	66.3%	7.3%		3.7%	412.4%	
Number of covered lives	260,000	170,000	160,000	19,000	17,500	3,500

- *Compulsory credit life has gained scale and was profitable from the start of the initiative*
- *Voluntary bundled product volumes have grown significantly, but has not reached targeted volumes. Decline in the reported profitability of Bima ya Jami as expenses relating to the business are monitored more accurately*
- *A significant proportion of the costs of skills development, building relationships with partners and consumer education for the Bima ya Jamii product were funded by donors, the results are significantly poorer if these costs were not funded by donors (2009: (92%) and 2008: 20%)*

Compulsory product greater scale and profitability than voluntary product

CIC Kenya: Key Insights

- Scale
  - **Existing relationships** facilitated access to customers
  - **More easily achieved for compulsory product**, challenging for voluntary product, lack of incentives for individual sales persons
- Managing claims costs
  - Low claims ratios for credit life – consistent with general experience
  - **Challenges claims costs of health component** of Bima ya Jamii, outsourced health risk component to NHIF
- Cost saving
  - **Leveraging off partner infrastructure** and existing structures for traditional business, support from donors
  - Lack of monitoring of costs relating to the microinsurance products

Innovative way of providing bundled benefits, but outsourcing risk to NHIF

ICICI Lombard India: Overview of Microinsurance Initiatives

- Index-based weather cover
  - Fixed triggers at seeding, vegetative and reproductive stage
  - Market: low income farmers using credit institutions
  - Partners: banks and other financial institutions providing credit to farmers
- Manipal Arogya Suraksha
  - Group health cover provides cashless benefit through partner healthcare providers
  - Focuses on three districts on Western coastline of India
  - Partner with network of hospitals and clinics in the area for distribution and provision of healthcare services
- Microinsurance products are managed under vertical business units separated by product line
- Government support for index product, donor support for health product

Variety of products managed by different business units

ICICI Lombard India: Profitability

QUANTITATIVE MEASURES	Index-based Weather			Health		
	2009	2008	2007	2009	2008	2007
Gross insurance profit ratio	1.4%	5%	(34.9%)	(32%)	(30%)	(30%)
Growth in gross written premiums	342.1%	235.0%		31.3%	87.2%	
Number of policies/ covered lives	259,958	108,819	43,278	275,000	256,000	159,000

- *Challenges to growing premiums voluntary health product*
- *Profitability of health product affected by adverse selection*
- *Profitability of index-based weather insurance volatile, protected by reinsurance*

ICICI Lombard India: Key Insights

- Scale
  - Weather product: **bulk sales through credit institutions**, government support index-based products
  - Health product: **Targeted region**, needs to reach certain enrolment level to gain scale
- Managing claims costs
  - Weather product, **claims volatility**, needs geographical spread, reliance on reinsurance, but pass profits to the reinsurer
  - Profitability of health product **increasing levels of enrolment**
- Cost saving
  - **Costs supported by business units**
  - Health insurance reducing commissions to partners, see benefits beyond commission earned

Both products need to reach scale in order to be commercially viable

Independent Case Studies

- Philippines
  - Malayan Insurance

Malayan Insurance Philippines: Overview of Microinsurance Initiatives

- Pawnshops
  - Distribution network: Linked to national pawnshop network more than 1,200 branches offering various financial services
  - Market: Socio-economic classes lower C, D & E
  - Product: Personal Accident Cover with Fire Assistance
- Rural banks and lending institutions
  - Distribution network: Linked to one of top 10 finance companies providing consumer and retail lending livelihood projects and micro-enterprises (78 branches nationwide)
  - Market: Micro, Small & Medium Enterprises
  - Product: Pampamilya Insurance family personal accident and hospitalisation plan
- Co-operatives and NGOs (last 2 years)
  - Distribution network: Linked to insurance intermediary focused on the delivery of microinsurance to organised groups
  - Market: Co-operatives, NGOs and MFIs offering microfinance services to the moderate and enterprising poor
  - Products: Weather-index Crop Insurance; Life (Personal Accident and Burial Assistance Benefits for families members); Fire insurance cover protect the residential properties and family members of borrowers

Malayan Insurance Philippines : Profitability

QUANTITATIVE MEASURES	2010	2009	2008	2007
Gross insurance profit ratio (total)	46%	47%	35%	47%
Growth in gross premiums (GP) (total)	11%	53%	53%	110%
Growth in GP (Pawnshops)	1%	24%	31%	104%
Growth in GP (Rural banks)	32%	163%	472%	565%
Growth in GP (Co-operatives and NGOs)	42%	315%		

	Pawnshops (2009)	Rural banks (2010)	NGOs and Co-operatives (2010)
Covered Lives	5 million	390,000	17,000

Insights

- Product
  - Compulsory vs voluntary products, challenges of low take up
  - Select products where there is an existing demand
  - Tension between providing valued benefits, managing claims costs and keeping products affordable (more evident in health insurance)
- Distribution
  - No products directly distributed to individuals, make link with groups first
  - Partner incentives, value proposition to insurer and partner
- Structure, management and administration
  - Working within existing structures vs setting up a separate business unit for microinsurance
  - Leveraging off resources from other business units
  - Support from outside sources e.g. donors

Conclusions

- Overview
  - As anticipated credit life most profitable
  - Early indications of promise not fully concrete yet, partly a function of insurers studied
- Evolution of initiative in order to achieve sustainability
  - Initial design, often rely on imperfect existing knowledge and experience
  - Monitor the experience of the initiative as it emerges
  - Make revisions based on experience and feedback from partners, distribution channels etc
  - Controls and monitoring processes should be set up at the start
  - Lengthy and iterative process of fine-tuning initiatives
  - Success in credit life can motivate insurers to expand product offering

Conclusions

- Need to have strategy in place to reach market on a large scale
  - Scale is needed to achieve a diversified portfolio, cover costs and achieve wider company goals of reaching a targeted proportion of the low income market
- Need to align the interests of the insurer and the partner
  - Reach targeted scale, outsource risks and provide services e.g. healthcare
  - Relationship needs to be managed, risk becoming dependent on a relationship that may change
- Benefit from resources from other units in the insurer
  - More detailed monitoring of costs would allowed insurers to gain a better understanding of the viability of the business
- Insurers optimistic about the potential of this market
  - Willing to support the business until it becomes viable

Discussion