

Learning the Hard Way

Denis Garand Denis@garandnet.net

John Wipf johnwipf@yahoo.com

In collaboration with Donna Swiderek

Credits

- Sources of information from presentations and publications by:
 - Michael McCord
 - Craig Churchill
 - Oliver Zenklusen
 - Denis Garand
 - John Wipf
 - Allianz publication
 - Others

What is MicroInsurance?

Microinsurance is.....

- Insurance for the Poor (simplest definition)

Microinsurance is.....

- “...the protection of **low-income** people against *specific perils* in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved”
~ *Draft Donor Guidelines, CGAP Working Group (2003)*
- “...not a specific product or product line. It is also not limited to a specific provider type. Microinsurance is the provision of cover to a specific market segment, i.e. **low-income persons.**” ~ *IAIS Issues Paper (2007)*

What is MicroInsurance?

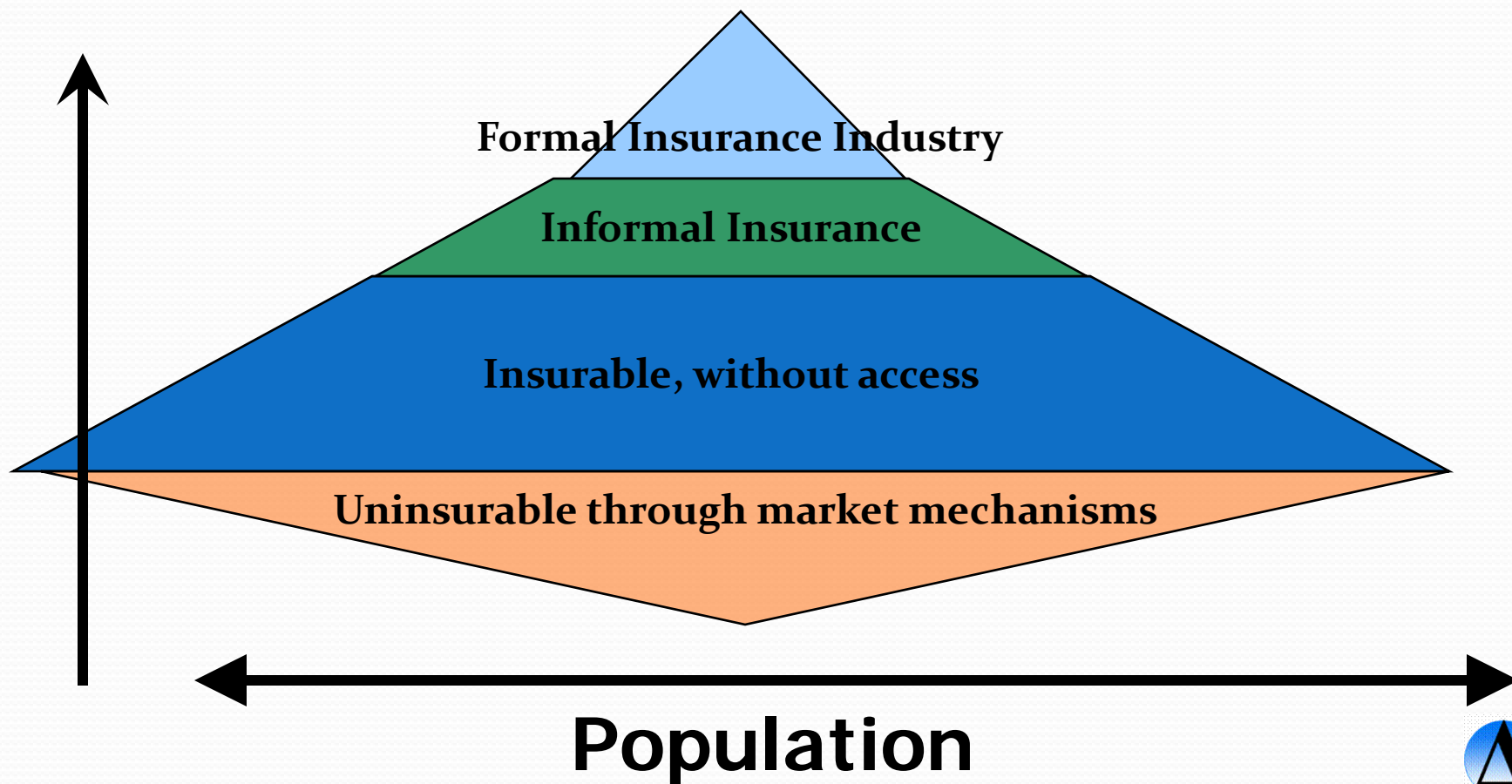
- Protects low income households against risks
- Products are specifically designed for the challenges the target market faces
- The low income households are exposed to more risk
- The poor are more vulnerable as current coping strategies continue poverty cycle

What is Microinsurance?

- Helps poor **manage** their risks
- Cannot eliminate poverty on its own
- Along with other risk management tools can make a valuable contribution to reducing poverty.

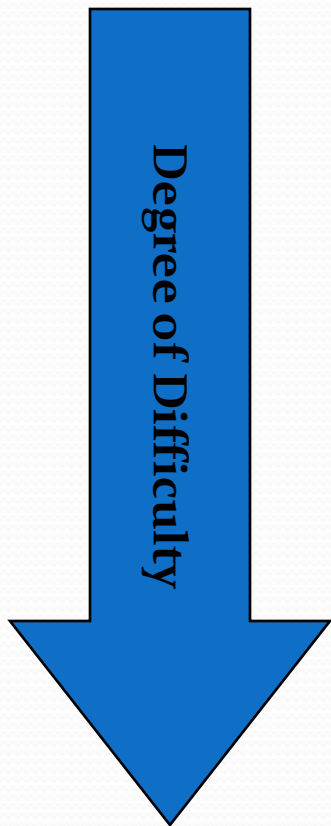
Who is Insured by Whom?

Source: Craig Churchill, ILO, Introduction to Microinsurance, Wealth

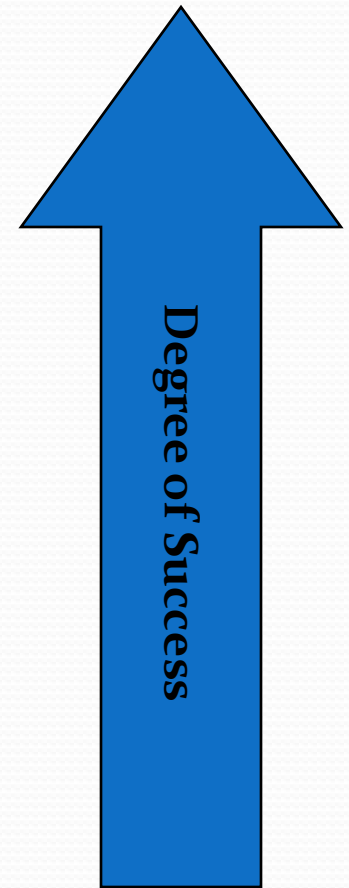


Most Common Types of MI Products

Source: The Landscape of Micro Insurance in the World's 100 Poorest Countries Roth, McCord, Liber



- Credit Life
- Term Life/Personal Accident
- Savings Life
- Property Insurance
- Endowment Life
- Health Insurance
- Agriculture





How is it Different from Regular Insurance?

- Relevant to the risks of low income households
- As inclusive as possible.
- Affordable premiums: often more frequent than annual pays, small sum insured
- Grouping for efficiencies (Co-ops, MFIs etc.)
- Simple and straightforward as possible



How is it Different from Regular Insurance? Con't

- Usually covers all members of a household
- Often products are bundled as one product covering several risks
- Easily accessible claims documentation requirements
- Strategies to overcome the wariness of customers due to unfamiliarity with insurance.

Characteristics of the Insurable Poor

- Vulnerable to Risks
- Often work in the informal economy
- Irregular cashflows
- Often manage risk informally, often through social networks
- Not very familiar with formal insurance
- May not trust insurance companies

Source: Craig Churchill, ILO. Introduction to Microinsurance, Microinsurance Conference, Mumbai 2007

Key Stakeholders

- Insurance Company
- MFI, NGO, CBO, Co-op etc.
- Healthcare providers



Why Microinsurance?

- Extend social protection in the absence of government schemes especially for those in the informal economy.
- New market for insurers – Approx 4 Billion people live on less than \$2 US a day
- Learnings can be transferred to higher income markets (I.e.) communication, efficiencies, distribution

Learning microinsurance practice

Discussion

When considering/implementing microinsurance:

- How did you learn about microinsurance practices?
- What are the critical issues that you learnt?
- **For practitioners**, do you feel results were improved by your prior learning?

Recurring Challenges in MicroInsurance

- Microinsurance is different from traditional insurance and requires a variety of approaches, but **simplicity** is key.
- Building market awareness is essential in microinsurance.
- Microinsurance needs efficient delivery channels, but these are hard to find.
- Microinsurance needs highly efficient processes and IT.

Building a Learning Community

- Learning from *difficulties* is *difficult*
- Towards a culture of sharing lessons learnt
- Looking for lessons learnt
- Sharing lessons learnt the hard way.
- Making use of nodal points of funding and knowledge

How far have we come?

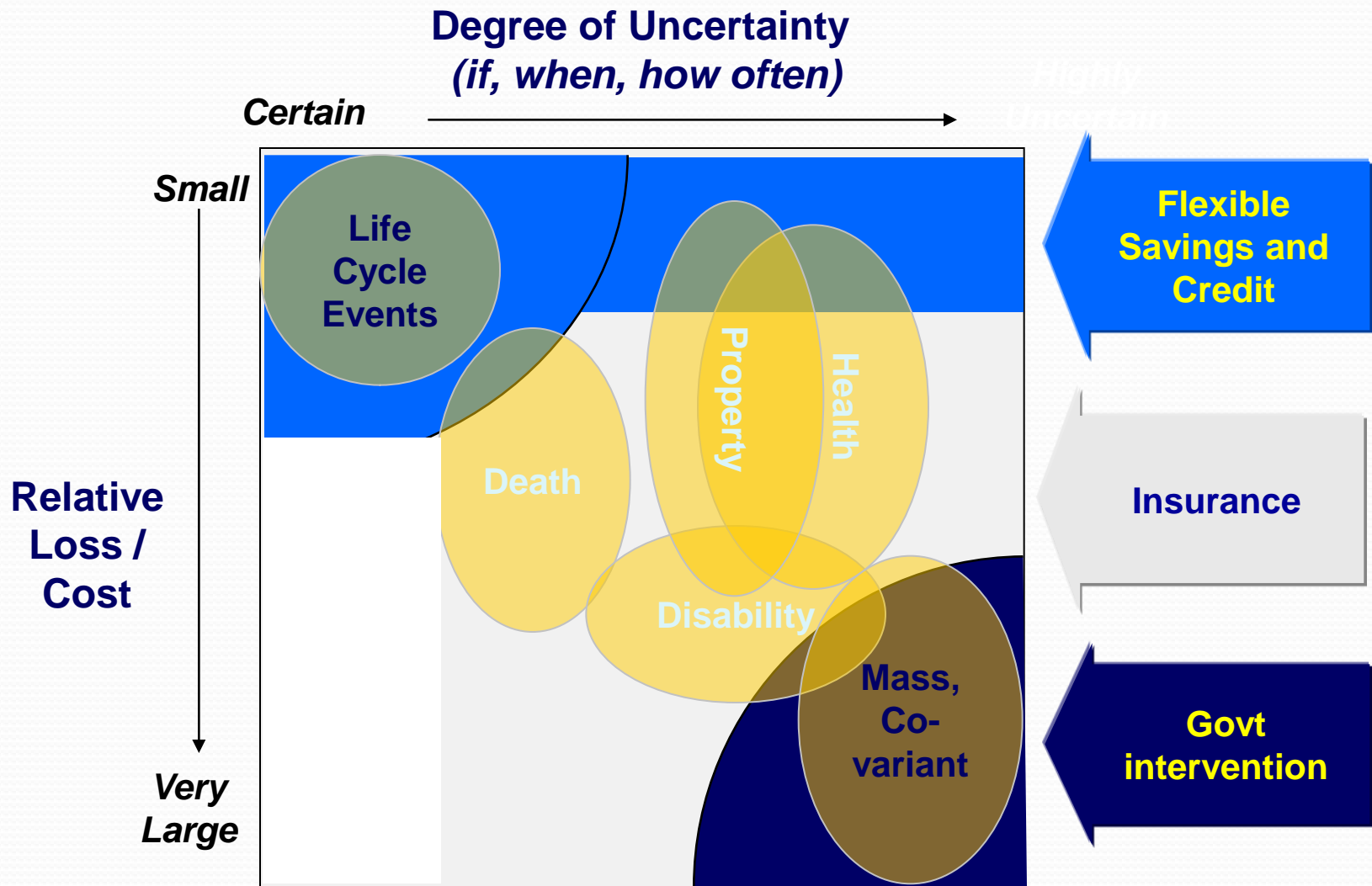
- In 2005 the Microinsurance Network published a paper titled "Lessons learnt the hard way". These unique tales of challenges and mistakes and how they were overcome were meant to help the industry and market entrants to start climbing the microinsurance ladder from a few steps further up – to their and the whole sector's benefit.
- Five years later, we observe that many of the same lessons in microinsurance still are being learnt the hard way. The same mistakes are being repeated over and over again.

Why, for example....

- Are so few organizations researching before diving in to offering Microinsurance?
- Are there still new products being developed without the benefit of understanding the needs of the market? Such products invariably create market difficulties and make microinsurance harder for people to appreciate.
- How can we ensure that what one program learns from such experiences is shared across the industry so that others can build on them?

Product Design

Savings, Credit, and Insurance



Lessons

- Health Insurance is in high demand, but complex to implement
- Demand Studies are essential
- The differences in the market forces MI to create a better product that has value to the customer
- Pricing needs to be reviewed regularly as experience varies.
- Product needs to be Simple.

Discussion 2

Practitioners: When developing a product for your target market

- Did you conduct research prior to developing a product? Why or why not?
- Were you able to achieve targeted sales?
- What could you have done better?

● **Others:**

- What information would you need to design a good microinsurance product?
- How would you get this information and validate it?
- What else would you do to increase the chance of success?

Demand Study and Needs Assessment

- The demand for microinsurance grows out of the *risks* and *risk management* strategies of low income households
- Understanding the critical gaps in managing risks is a starting point for identifying microinsurance products for the poor

Demand Study and Needs Assessment

- Enhances product design
- Identifies steps to be taken to ensure products address the unique needs of the poor

Enhances product design to

- Zero in on insurable risks
- Design products that are feasible, acceptable and affordable
- Find type and level of coverage that low income groups need
- What exclusions, premium amounts, payment options and payment systems fit with their preferences and capacities?

Topics to Address

- Social characteristics of target market (I.e.) age, gender, marital status, education, literacy levels
- Economic characteristics: (I.e.) cashflow patterns, monthly income, savings/loans
- Nature of risks and life cycle events that cause high levels of economic stress
- Impact of risks (I.e.) type, impact and severity of loss

Topics to Address con't

- Current coping strategies, the level of stress they create and their effectiveness
- Client satisfaction with existing insurance products

Market Research

- Types of insurance needed
- Types of insurance that can be afforded
- What products are feasible to deliver

Understanding Client's Needs

- Key risks facing poor people
- Impact of the risks
- Existing coping mechanisms and its effectiveness
- Role that microinsurance can play
- Helps identify appropriate product attributes
- Appropriate controls for the size of the benefit

Product Specific Research

- Carried out during the development, testing and/or delivery of product
- Determine customer satisfaction and loyalty
- How does product match the needs, preferences and income capacity of the customers?

Size of Potential Market

- Estimate number of policyholders in geographic area along with demand and capacity to pay.
- Helps identify financial feasibility, profitability and pricing info and potential markets.

Key Steps in Market Research

- Define the target market in a region
- Identify insurable risks
- Determine important product features
- Establish willingness and ability to pay
- Ongoing market research
- Client education
- Competition

Importance of well designed research

- If you are in earning \$1 a day, would you be willing to by health insurance?
 - What is the answer?
 - Is this a good question?
 - If not what question would you ask to understand the need of health insurance
- Example of CHAT, other research....
- Remember the basic data requirements

Factors in Microinsurance Purchases

Perceptions of Insurance

Understanding Insurance Concepts

Product / Demand Match

Easy Payment Mechanism

Cost of Coverage

Available Income

Cost and Frequency

Education → Knowledge → Appreciation
Requires

Decision Making



Purchase

Requires
Appropriate product design

Pricing

Basic pricing components:

- Needs to develop budgets on plan implementation to developed a realistic expense component
 - (Donors may help fund start up cost)
- Estimate expected claims
- Add a small margin for profit/surplus.

- It is always easier to lower a price than to raise it.

Simplicity is necessary

- Clients have low insurance knowledge
- Low literacy in these areas
- Make the policy easy to understand.
- Make the claims process easy and practical.

Operations

Lessons

- Collecting premiums and settling claims requires lots of Customer interaction.
- Lack of access and distance pose challenges
- Utilize Existing Networks
- Technology

Customer Interaction

- In person collection is required as most clients do not have bank accounts for automatic deductions
- Premiums usually collected at group meetings.
- Need guidance through claims process
- How is claim paid to client?

Lack of access

- Rural areas may not have paved roads or cell phone service
- Distance to branches may be too far for clients to pay premiums.
- Access to medical services or qualified doctors/nurses pose challenges

Utilize Existing networks

- Marketing must be transparent and build trust.
- Using a delivery partner such as MFIs, employers, NGOs, retailers, and charitable organisations provides access to clients, but does not guarantee successful sales.
- MFIs struggle to justify the time needed to sell voluntary policies for low commissions, even though secondary benefits, such as lower credit risk from healthier clients may make it worth the effort.
- Lots of training is required for the delivery partner.

Technology

- Dealing with large numbers of clients and low premiums, settling claims fast while still controlling fraud, and selling policies requires good MIS.
- Distribution partnerships data transfer to the insurer has to be swift enough, both for the administration of individual clients as well as for capturing performance indicators and extracting actuarial data.
- The right IT systems need to be introduced at the right time and in the right way can make or break a microinsurance business.

Technology

Key lesson:

- Microinsurers should prepare processes for large transactional volumes, create and manage electronic links with its delivery channels, and collect and use key performance indicators on all operations.

Sales

Lessons

- Education and awareness around the concept and benefits of insurance is essential
- Build Trust

Education and Awareness

- Clients in target markets may never have heard of insurance so expecting low-income markets to embrace microinsurance products is a mistake that may lead to unnecessary disappointment.
- Building awareness may take time and resources beyond those of an individual programme. What will work depends upon culture, history, and institutions trusted by people.
- Clients need to full understand what is covered and the claim process

Education and Awareness

Examples:

- In ex-Soviet regions, awareness campaigns have to deal with negative past experiences with insurance.
- In Islamic countries Takaful products have emerged to address religious concerns, and services offered sometimes are not even labelled insurance to help people move beyond the negative perceptions.
- Used Radio spots, theatre and songs, comic books etc. Images and metaphors work better than jargonise: "Insurance is like an umbrella" rather than "Insurance is a risk-pooling arrangement ...".

Build Trust

- Establish value - Product needs to be specific to the group's needs
- Link to community (NGO) - Training of staff is essential for good service
- Start with simple products to establish familiarity.
- Customer contact/feedback helps build a better product later on.
- Informal “Word of Mouth” is key.
- Clients need to see payments being made.

Outreach and Profitability

Lessons

- There is a large potential MI market that is untapped
- As there is a low premium, a large volume of policies need to be sold
- Keep costs low – efficiencies in administration and distribution are necessary.
- Variety of delivery channels

What is Needed?

What is needed?

- Simple step by step “How to” Guide written in layman’s terms.
- The typical insurance company approach (put it out there and adjust as you go) does not work for MI.