Microinsurance policy imperatives – country evidence

Presentation at FSI/IAIS/MIN meeting on microinsurance

Hennie Bester
Basel, 7 July 2010
Outline

1. Product analysis
2. Intermediation
3. Health insurance as special case
4. Policy imperatives
1. Product analysis
## Microinsurance product features

<table>
<thead>
<tr>
<th>Product &amp; channel</th>
<th>Premium</th>
<th>Cover</th>
</tr>
</thead>
</table>
| Casas Bahia PA (retailer)                | $4 per month             | **Life:** $333 in 3 monthly grocery baskets  
|                                          |                          | **PA:** $278 for hospitalisation (double if public transport)  
|                                          |                          | **Medicine discounts** – 50% on each purchase  
|                                          |                          | **Lottery:** $833                                     |
| CrediAmigo from Banco de Nordeste (Credit agent/MFI) | $12.50 per annum – up to 6 modules | **Life:** $1500  
|                                          |                          | **Funeral:** $420                                   
|                                          |                          | **Lottery:** 4 monthly draws worth $750 each         |
Microinsurance = micro premiums

Traditional insurance vs. Microinsurance

<table>
<thead>
<tr>
<th></th>
<th>Traditional insurance</th>
<th>Microinsurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit &amp; reserves</td>
<td>$2.5</td>
<td>$0.25</td>
</tr>
<tr>
<td>Net claims</td>
<td>$35</td>
<td>$2.75</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$7.5</td>
<td>$1</td>
</tr>
<tr>
<td>Commission</td>
<td>$5</td>
<td>$1</td>
</tr>
</tbody>
</table>

Net premium: 5% to 70%

Microinsurance:
- Net premium: 5%
- Net claims: 55%
- Total expenses: 55%
- Commission: 20%
Brazil: Increasing client coverage, decreasing value to consumer

- **Life - group**
- **PA - group**
- **Credit life**
- **Extended warantees**
- **Multi peril**

Legend:
- Direct premium
- Claims ratio
- Selling expenses
## Premium breakdown: Brazil

<table>
<thead>
<tr>
<th></th>
<th>Group PA</th>
<th>Credit life</th>
<th>Group life</th>
<th>Extended Warranty</th>
<th>Multi Peril</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income</td>
<td>n/a</td>
<td>30%</td>
<td>10%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Management expenses</td>
<td>10%</td>
<td>n/a</td>
<td>25%</td>
<td>10%</td>
<td>n/a</td>
</tr>
<tr>
<td>Net claims</td>
<td>16%</td>
<td>n/a</td>
<td>51%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Sales expenses</td>
<td>20%</td>
<td>37%</td>
<td>21%</td>
<td>50%</td>
<td>52%</td>
</tr>
</tbody>
</table>

Source: SUSEP database (year ending June 2008)
Premium breakdown: South Africa

Average results for 5 years ending Dec 2008
Source: FSB (2008)

* Based on results for “typical” life or asset insurers defined as those writing business across most product lines

High claims and expenses undermine underwriting profit

Net premium
- 64%
- 26%
- 7%

Net claims
- 13%
- 101%
- 9%
- 59%

Profits & reserves
- 17%
- 10%
- 19%
- 10%

Investment income
- 10%
- 6%
- 9%

Management expenses
- 6%
- 10%
- 10%
- 19%

Commission
- 59%
- 26%
- 19.8%

Life*

Funeral

Asset*

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Implications for regulation

- Tight bottom line: minimise regulatory transaction costs
- Facilitate underwriting of composite products – avoid strict demarcation
- Try to avoid price controls
- Monitor value to client (supervision) and respond appropriately
  - Product approval
  - Open up underwriting space – competition to improve inefficiencies
  - Reduce distribution costs
2. Intermediation
“Microinsurance belongs to the distribution channel.”
Retailer model

Roles:
- Underwriting
- Product development
- Training of sales people
- Facilitating relationship
- Consolidating data
- Marketing
- Admin
- Labour
- Product development
- Client intelligence
- Premium collection
Database selling model

Roles:
- Underwriting
- Product development
- Facilitating relationship
- Mining market intelligence
- Marketing
- Product development
- Labour
- Database
- Premium collection
- Admin
- Labour
MFI/credit provider channel

Roles:
- Underwriting
- Product development
- Facilitating relationship
- Consolidating data
- Product development
- Marketing
- Premium collection & front office
- Labour
Door to door sales

Roles:
- Underwriting
- Product development
- Client/market intelligence
- Admin
- Marketing
- Labour

Premium collection via correspondents/banks
Door to door sales

Roles:
Underwriting
Product development
Client/market intelligence
Admin
Marketing
Sales
Funeral home model

Roles:

- Underwriting (though not generally based on insurance principles)
- Marketing (via sales force or through funeral homes and cemeteries)
- Collection
- Claim payment in form of funeral service
- May include other benefits "in life"
PASI model (common bond)

**Roles:**
- Underwriting
- Estipulante
- Product development
- Marketing
- Claims processing
- Admin
- Facilitating relationship between PASI and employer
- Suggesting product modules to employer
- Pays premiums
- Puts pressure on co. to provide benefits
Cooperative model (Kenya/Colombia)

Roles:
- Underwriting
- Product development
- Back office
- Marketing to members
- Premium collection
Implications for regulation

- Facilitate active sales
- Traditional broker/agent model too expensive – permit use of “subsidised” sales forces
- Facilitate short distribution channels
- Group underwriting and group distribution
- Ensure suitable balance of power between insurer and intermediary
- Who is accountable to the client?
3. Special case of health insurance
Health risks cause financial pain

- Focus groups consistently highlight high potential demand for health insurance
- Health risks rank high in both severity and frequency

*Note: size of bubbles denotes ranking*
Health insurance intricately linked to supply of medical services

- “Trilateral” insurance relationship:

- Insurers
- Risk pooling
- Households
- Risk impact
- State
- Service providers
The extremes of policy responses

Strict minimum benefits excludes micro-health, leads to life insurers pushing the demarcation boundaries

Regulatory uncertainty leads to grey areas, unlevel playing field
Implications for regulation

- Do not cut health insurance out of insurance
- Align health insurance with provision of health services
- Be brutal in understanding health financing and curtailing abuses
Understand your market!

Then regulate.

hennie@cenfri.org