



Making financial markets work for the poor

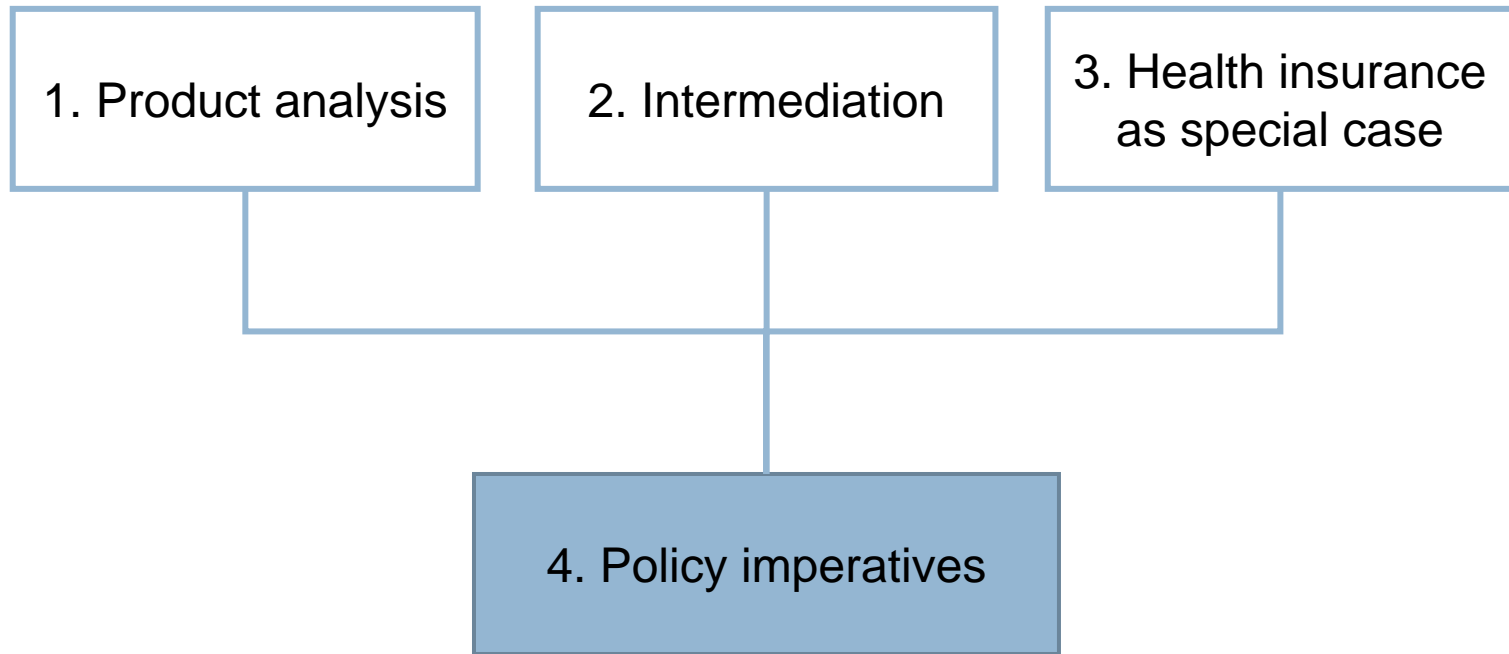


# Microinsurance policy imperatives – country evidence

Presentation at FSI/IAIS/MIN meeting on microinsurance

Hennie Bester  
Basel, 7 July 2010

# Outline





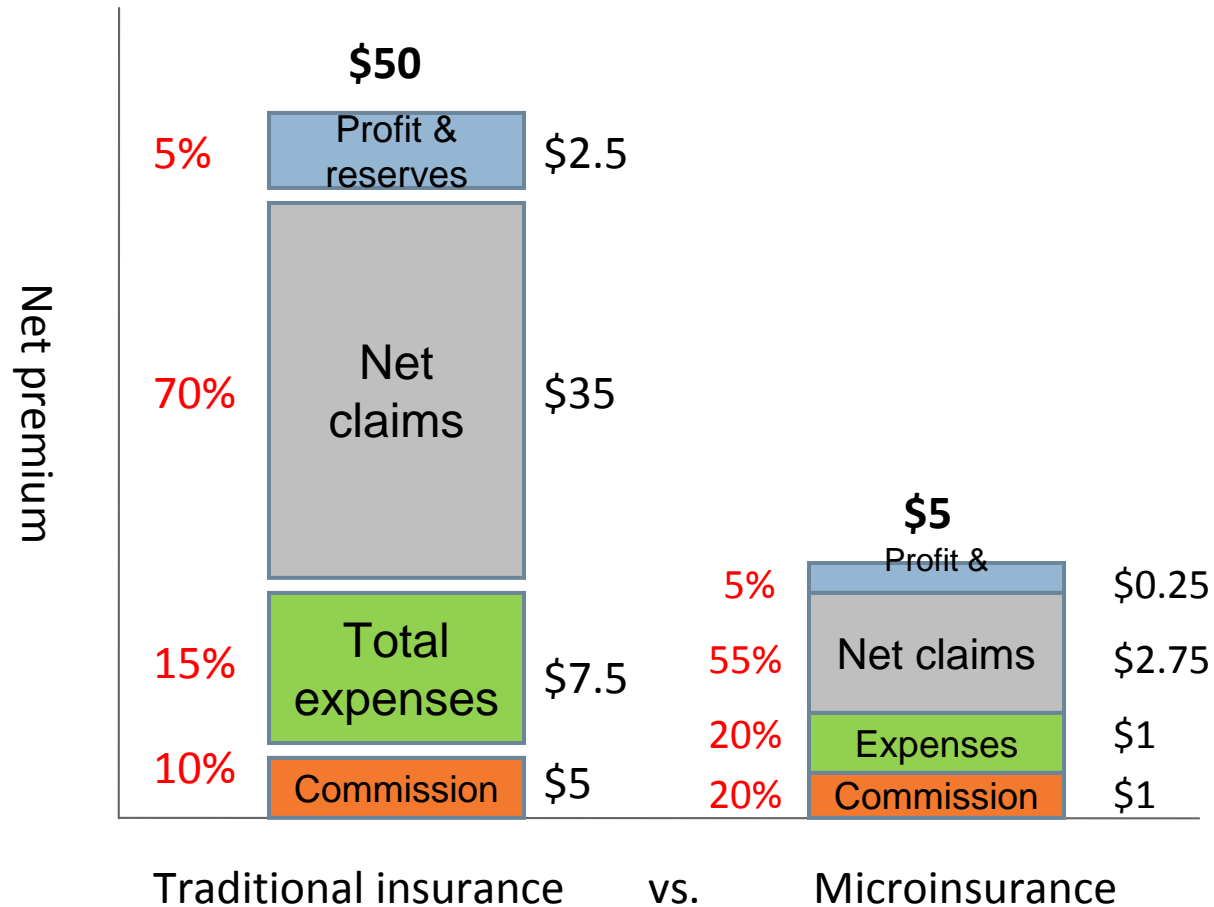
# 1. Product analysis



# Microinsurance product features

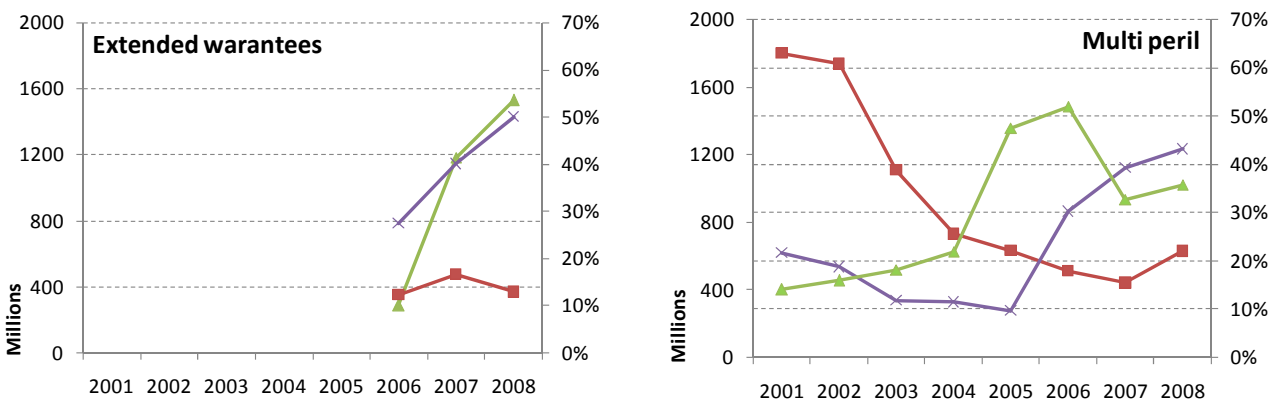
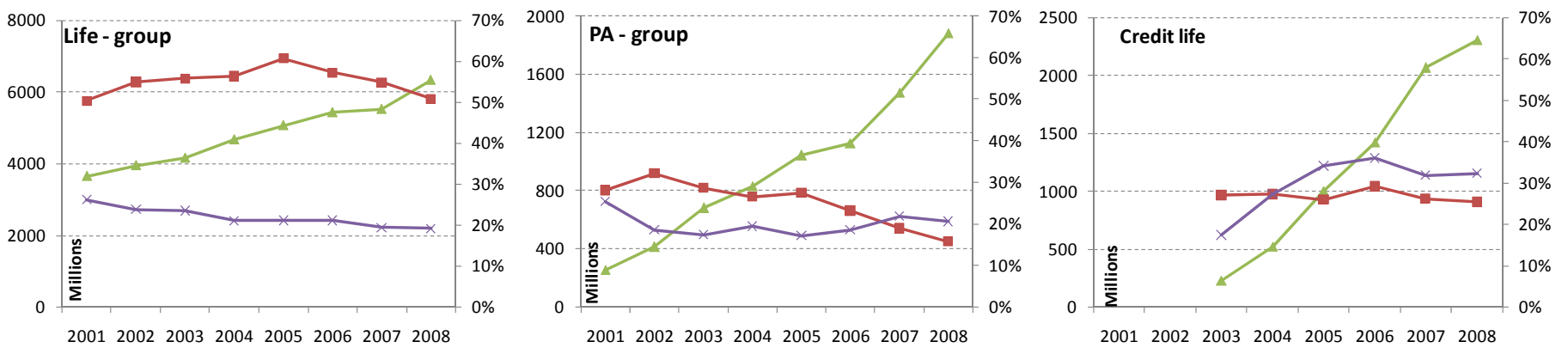
Product & channel	Premium	Cover
Casas Bahia PA (retailer)	\$4 per month	<b>Life:</b> \$333 in 3 monthly grocery baskets <b>PA:</b> \$278 for hospitalisation (double if public transport) <b>Medicine discounts</b> – 50% on each purchase <b>Lottery:</b> \$833
CrediAmigo from Banco de Nordeste (Credit agent/MFI)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

# Microinsurance=micro premiums



# Premiums, claims & expenses

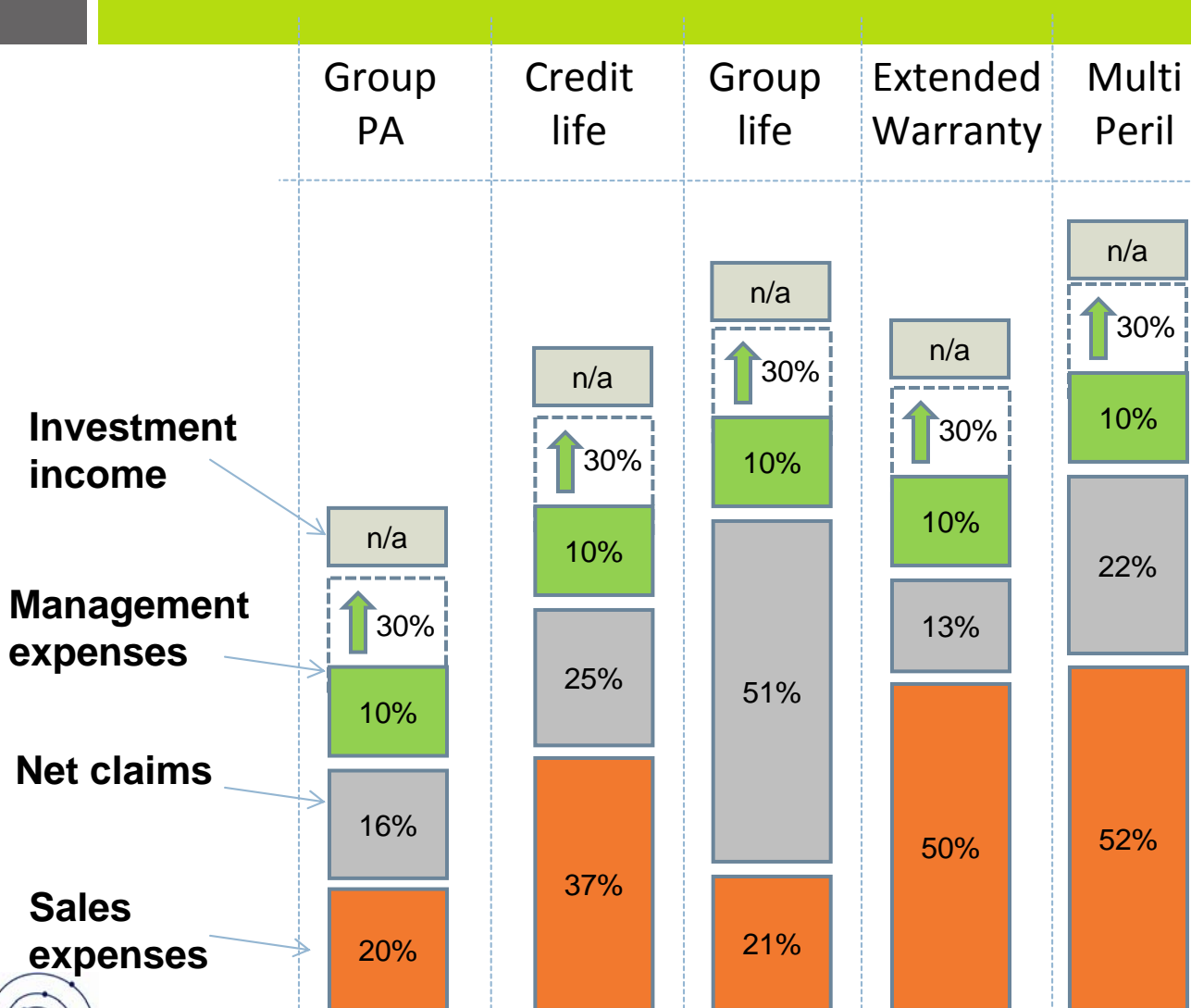
□ **Brazil:** Increasing client coverage, decreasing value to consumer



▲ Direct premium      ■ Claims ratio      ✕ Selling expenses



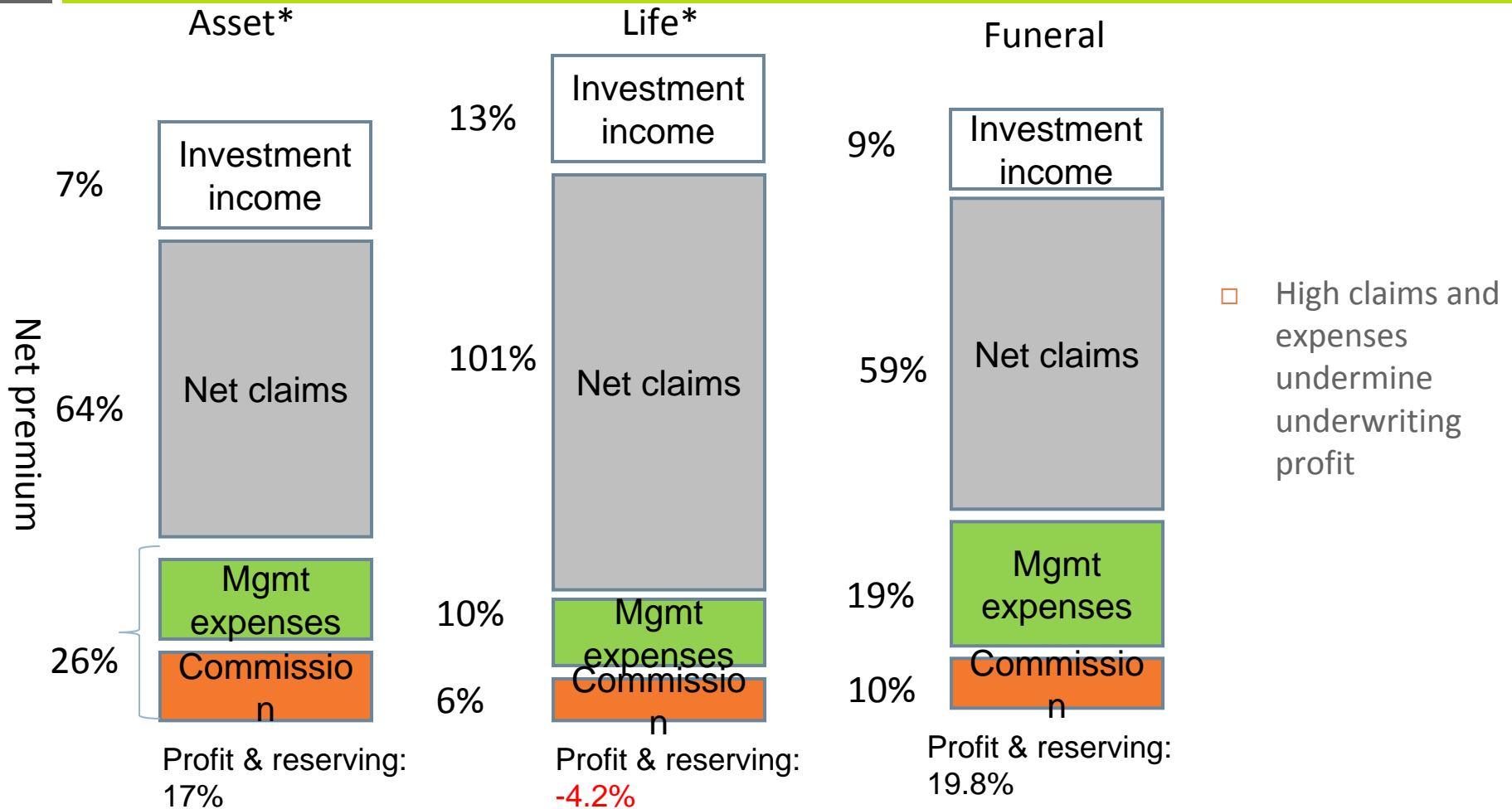
# Premium breakdown: Brazil



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





# 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

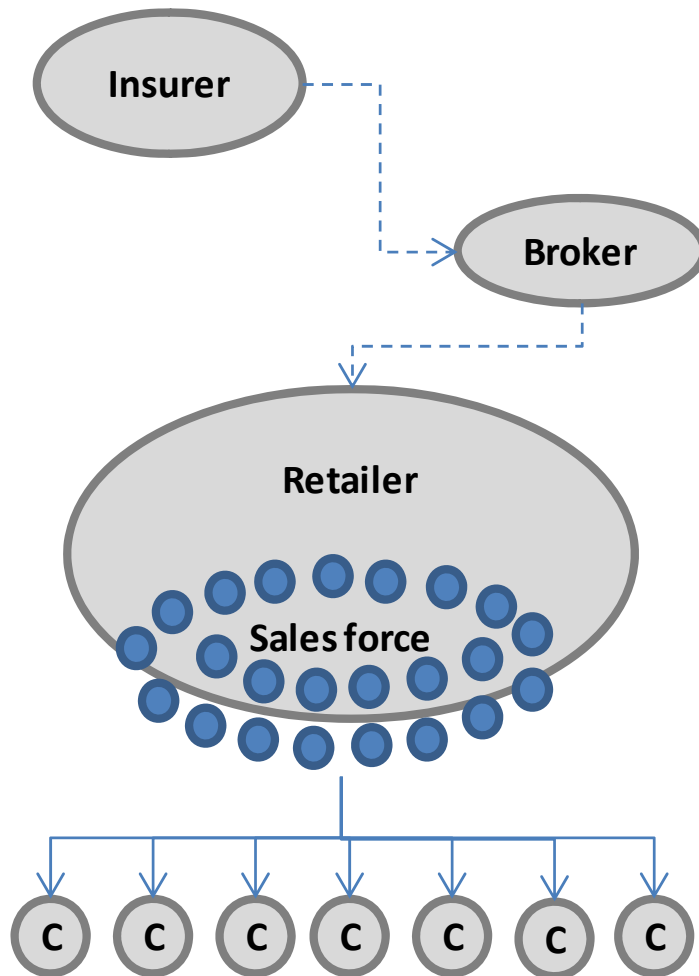




“Microinsurance belongs to the  
distribution channel.”



# Retailer model



## Roles:

Underwriting  
Product development  
Training of sales people

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Facilitating relationship  
Consolidating data

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Marketing  
Admin  
Labour  
Product development  
Client intelligence  
Premium collection



# Database selling model

## Roles:

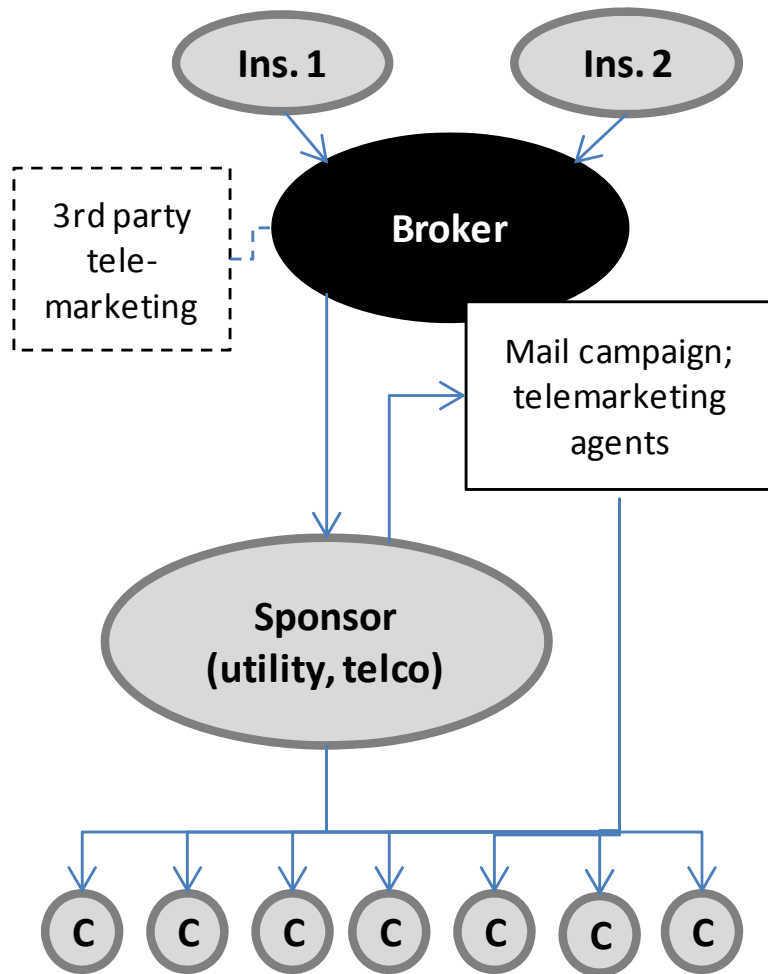
Underwriting  
Product development

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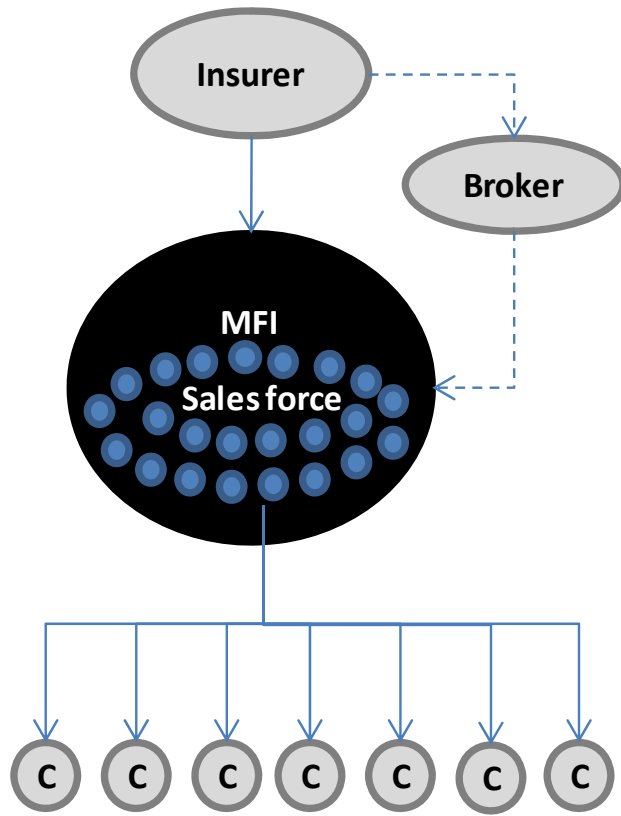
Facilitating relationship  
Mining market intelligence  
Marketing  
Product development  
Labour

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Database  
Premium collection  
Admin  
Labour



# MFI/credit provider channel



## Roles:

Underwriting  
Product development

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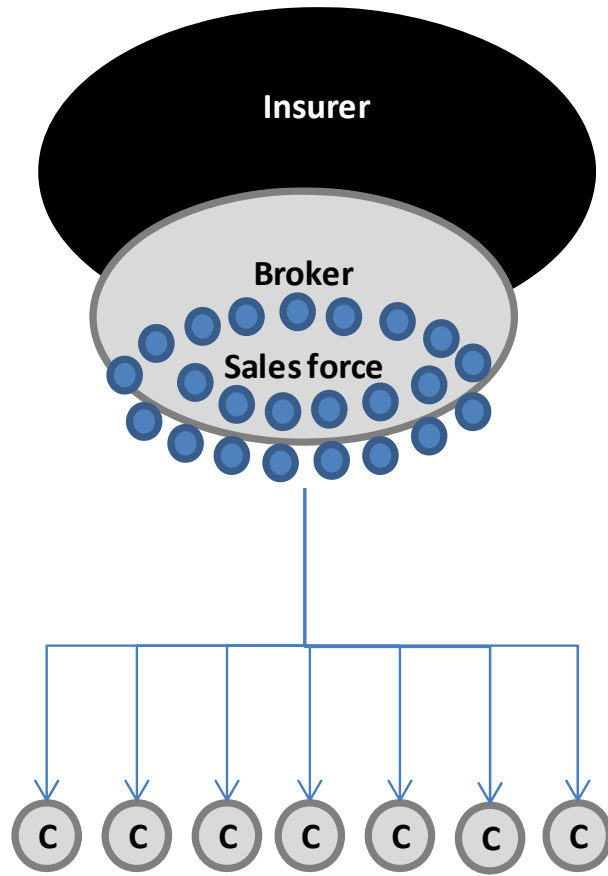
Facilitating relationship  
Consolidating data

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Product development  
Marketing  
Premium collection & front office  
Labour



# Door to door sales



## Roles:

Underwriting  
Product development  
Client/market intelligence  
Admin

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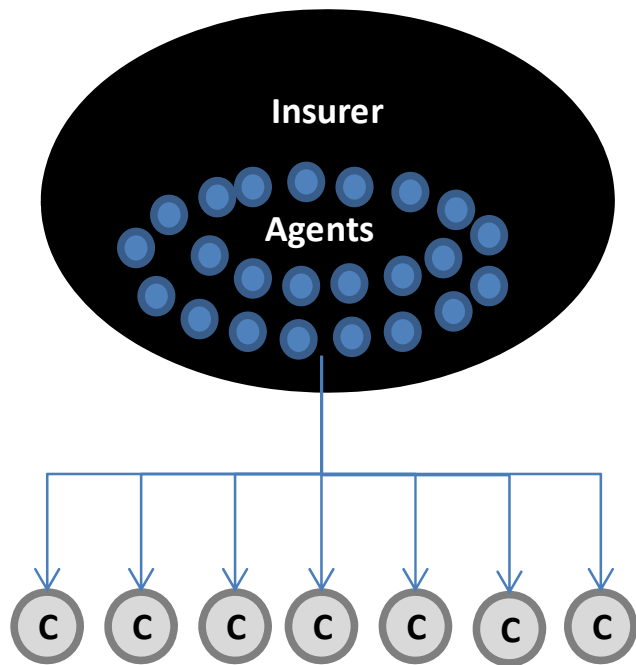
Marketing  
Labour

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Premium collection via  
correspondents/banks



# Door to door sales



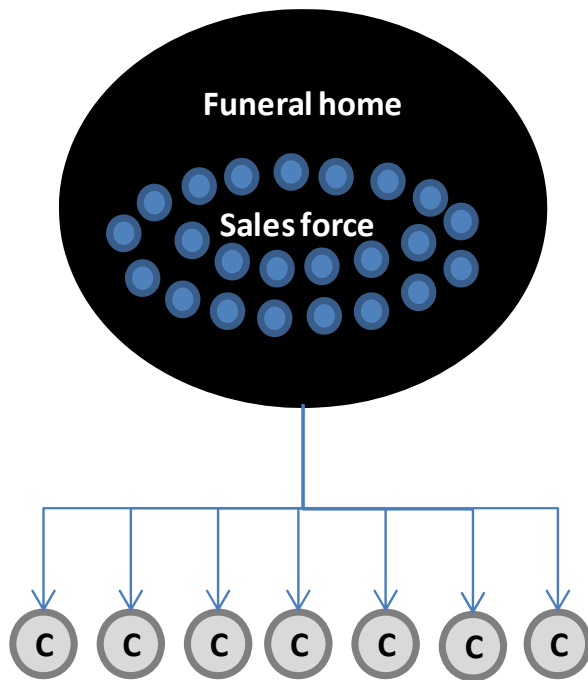
## Roles:

- 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)

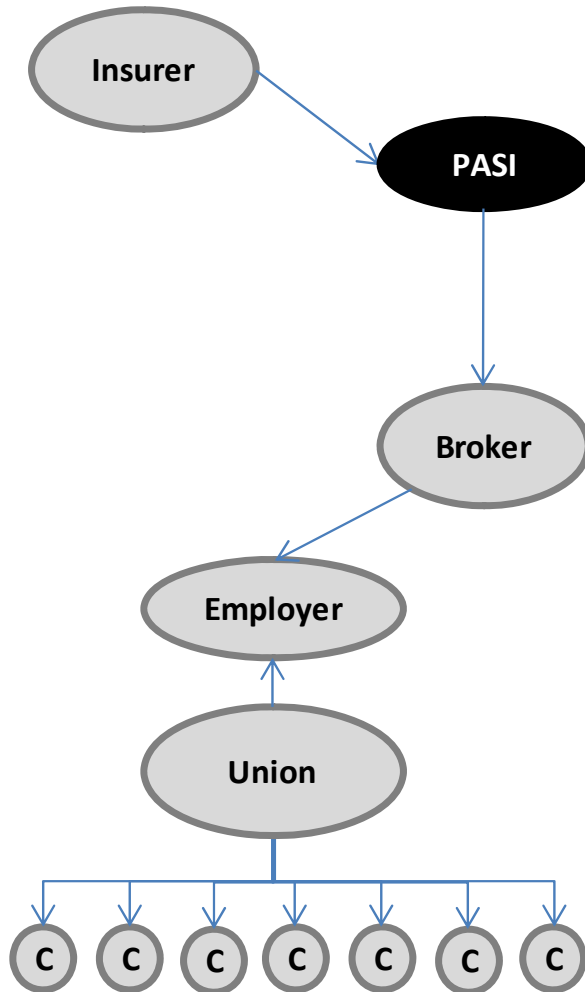
Collection

Claim payment in form of funeral service

May include other benefits "in life"



# PASI model (common bond)



## Roles:

Underwriting

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Estipulante

Product development

Marketing

Claims processing

Admin

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Facilitating relationship  
between PASI and employer  
Suggesting product modules  
to employer

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Pays premiums

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Puts pressure on co. to  
provide benefits



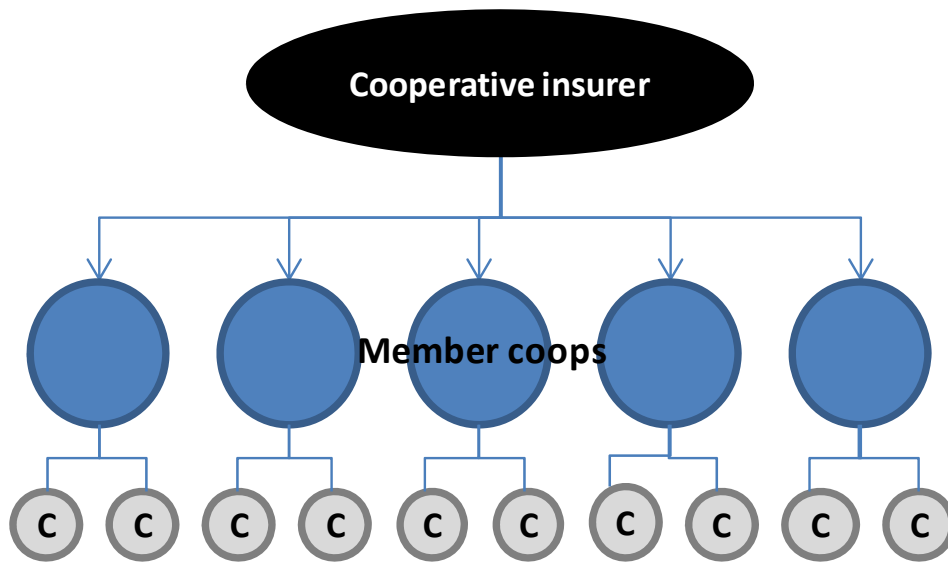
# Cooperative model (Kenya/Colombia)

## Roles:

Underwriting  
Product development  
Back office

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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?



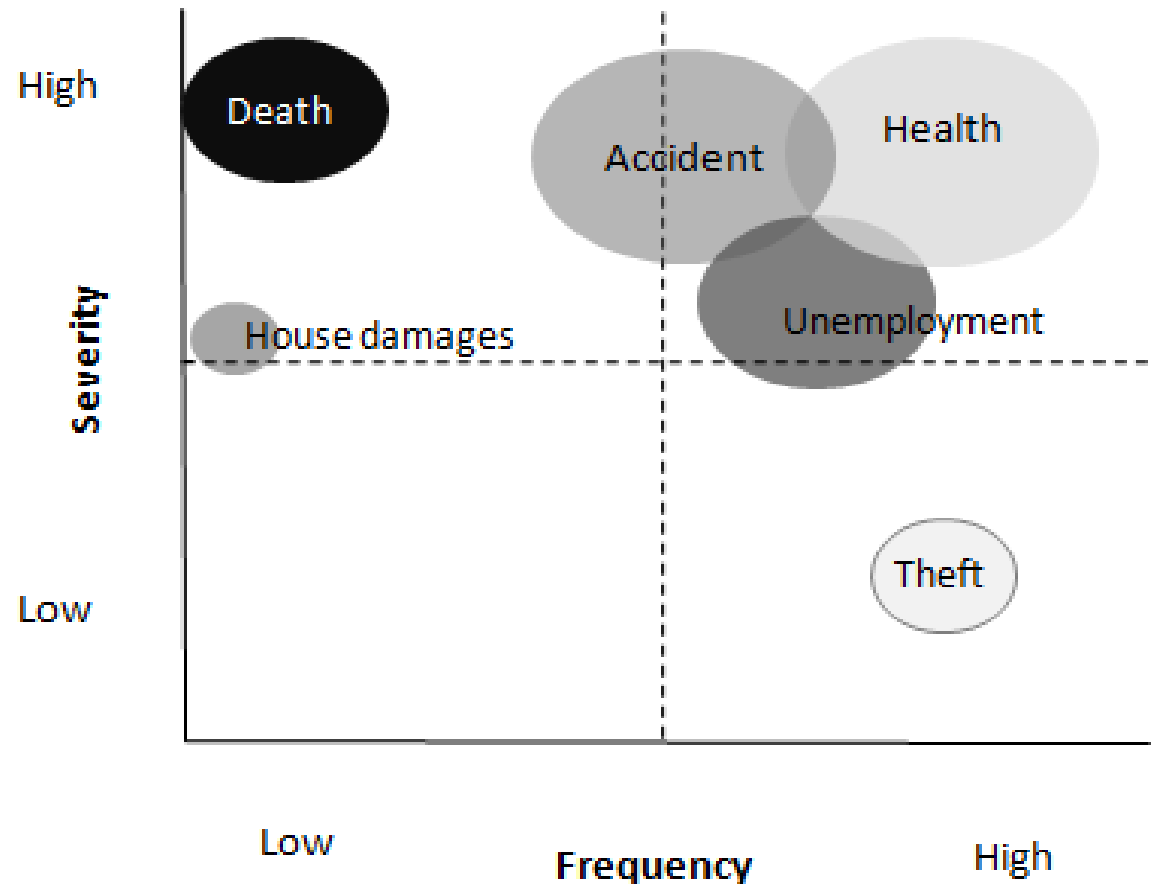


# 3. Special case of health insurance



# Health risks cause financial pain

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

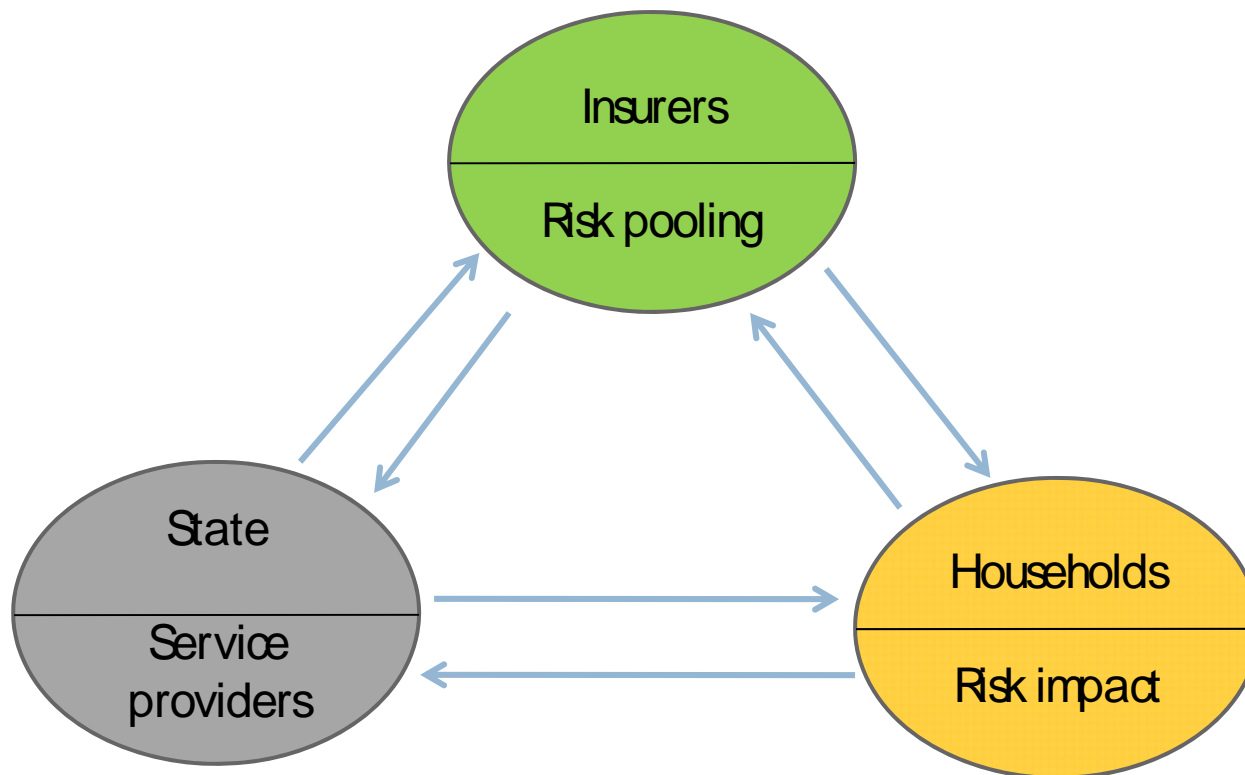


*Note: size of bubbles denotes ranking*



# Health insurance intricately linked to supply of medical services

- “Trilateral” insurance relationship:



# 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.

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