

Emerging cross-country insights

Microinsurance business models,
corresponding risks and regulatory responses

Stefanie Zinsmeyer, 12 November 2013
First Consultative Forum on business models, distribution and their
regulatory implications
Jakarta, Indonesia





access to insurance initiative

The Access to Insurance Initiative (A2ii)

The Initiative is a partnership between:



International Association of Insurance Supervisors



BMZ



Federal Ministry for Economic Cooperation and Development



International Labour Office



Overseas Ministry of Insurance
Miembro del Grupo BID



Ministry of Foreign Affairs of the Netherlands

Hosted by:



Unique partnership between:

- international development agencies/ donors and
- the International Association for Insurance Supervisors (IAIS)

Triggers the reforms in regulation and supervision required for the development of inclusive insurance markets.

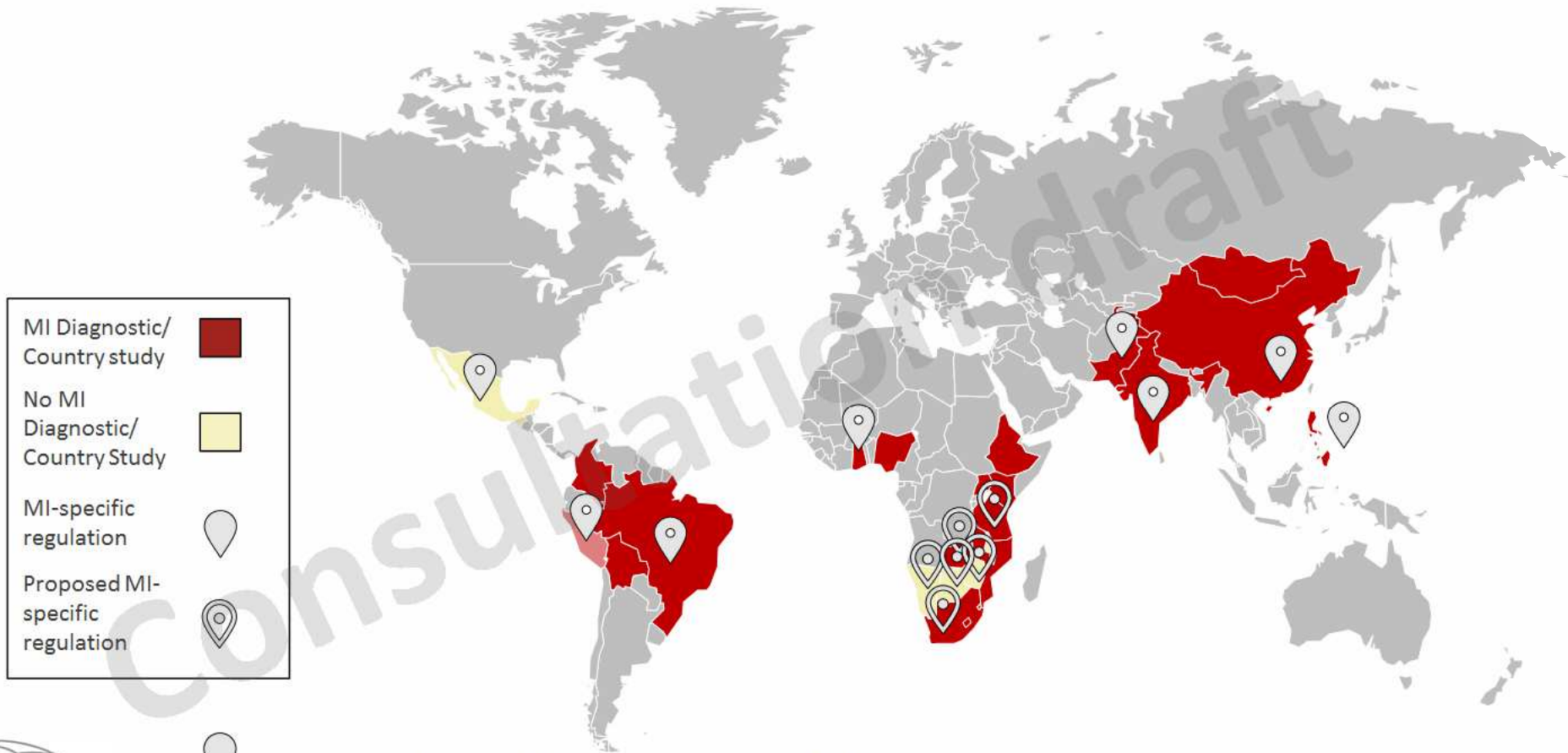
Our Mission/Vision:

We are the implementing partner of the IAIS to increase access to insurance. We inspire and support supervisors to promote inclusive and responsible insurance, reducing vulnerability.



- **A2ii synthesis process:** develop three thematic notes to synthesise trends and issues across countries on key microinsurance policy, regulatory and supervisory topics
- **Scope of notes determined by A2ii Technical Team:**
 - *First note* - Evolving microinsurance business models and their regulatory implications
 - *Second note* - Different approaches taken by regulators to catalyse microinsurance markets and their impact
 - *Third note* - Input into forthcoming IAIS issues paper on market conduct, distribution and consumer protection in inclusive insurance markets





Brazil, China, Ghana, India, Mexico, Mozambique, Peru, Philippines, Ghana

Botswana, Namibia, Pakistan, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe

Evolving microinsurance business models and their regulatory implications:

1. How do we categorise the various business models?
2. What are they and how do they evolve?
3. Market dynamics distinctive to microinsurance business models
4. Risks, risk drivers and observed responses



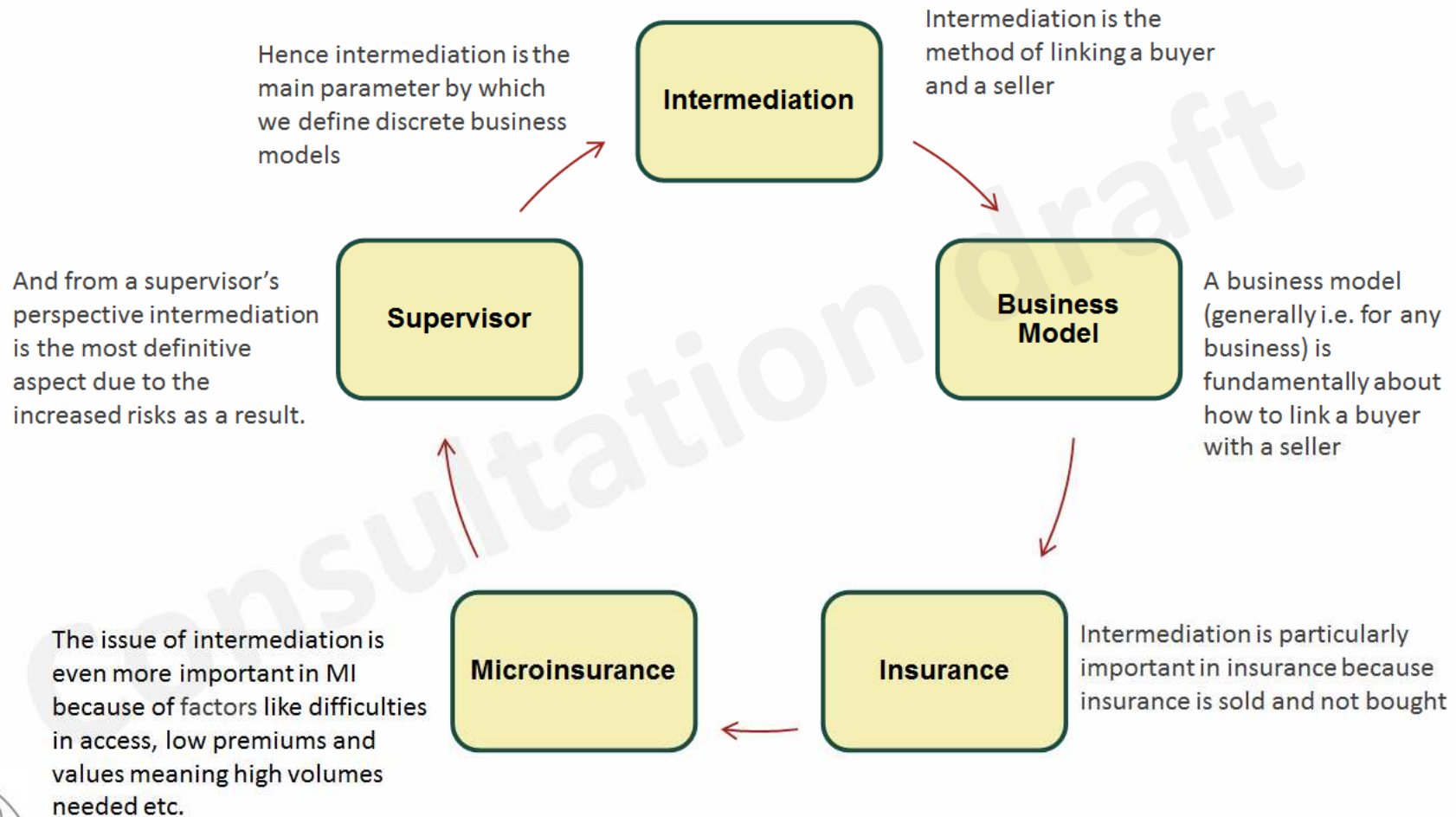
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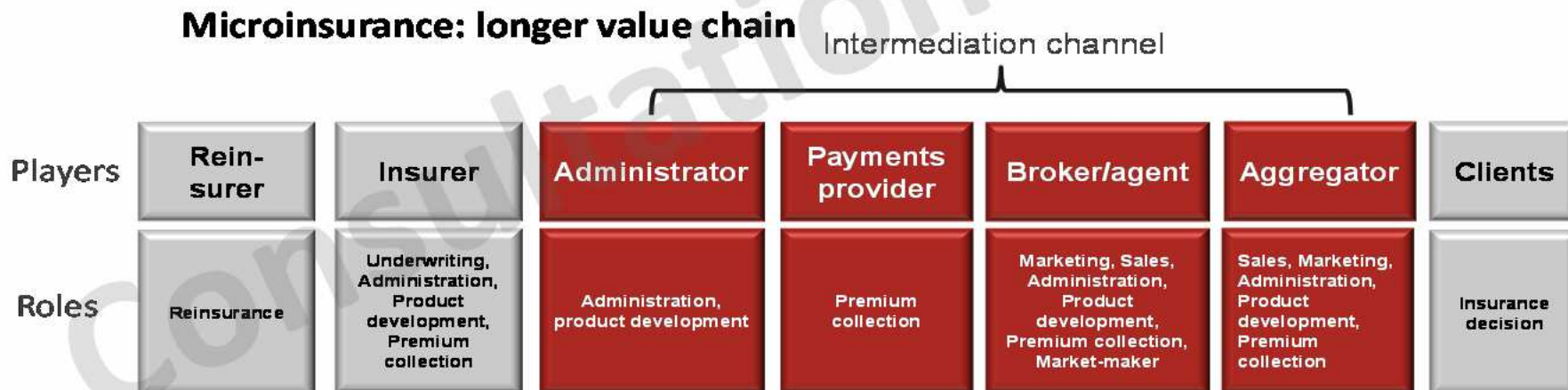
Business Models: categorisation

Why emphasise intermediation?





VS.



Evolving microinsurance business models and their regulatory implications:

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8 discrete business models

1. Individual sales

5. Local self-help

2. Proxy sales
force

6. Auto enrolment

3. Compulsory
sales

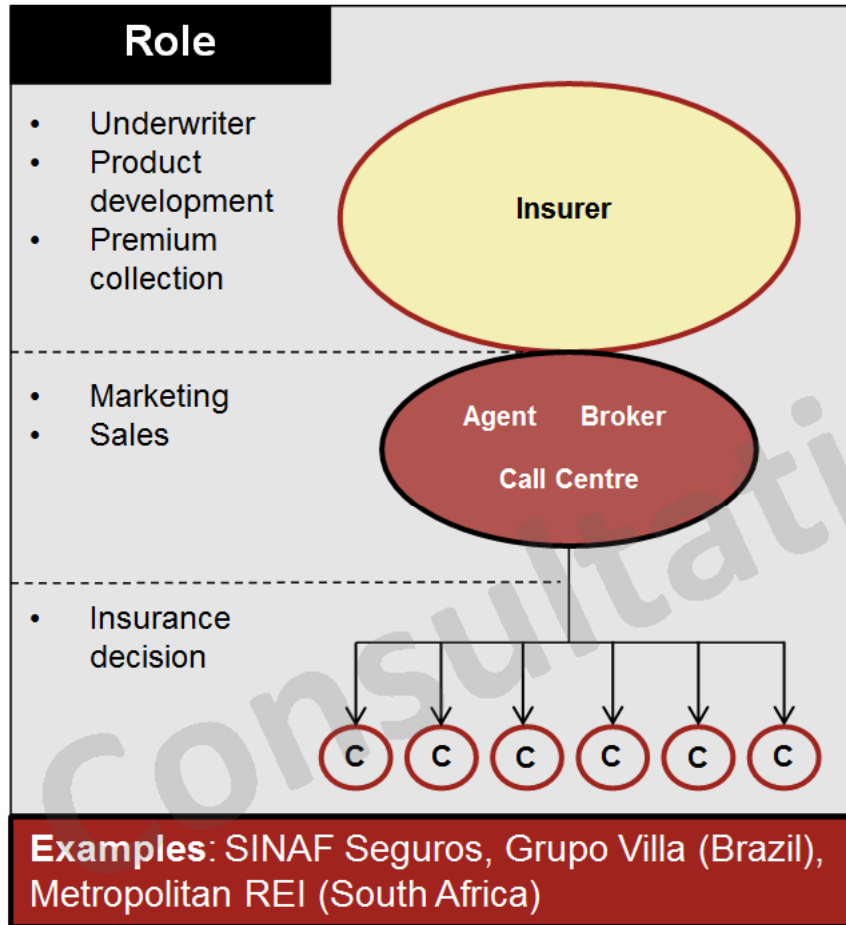
7. Passive sales

4. Group decisions

8. Service- based
sales



Model 1: Individual sales



Description:

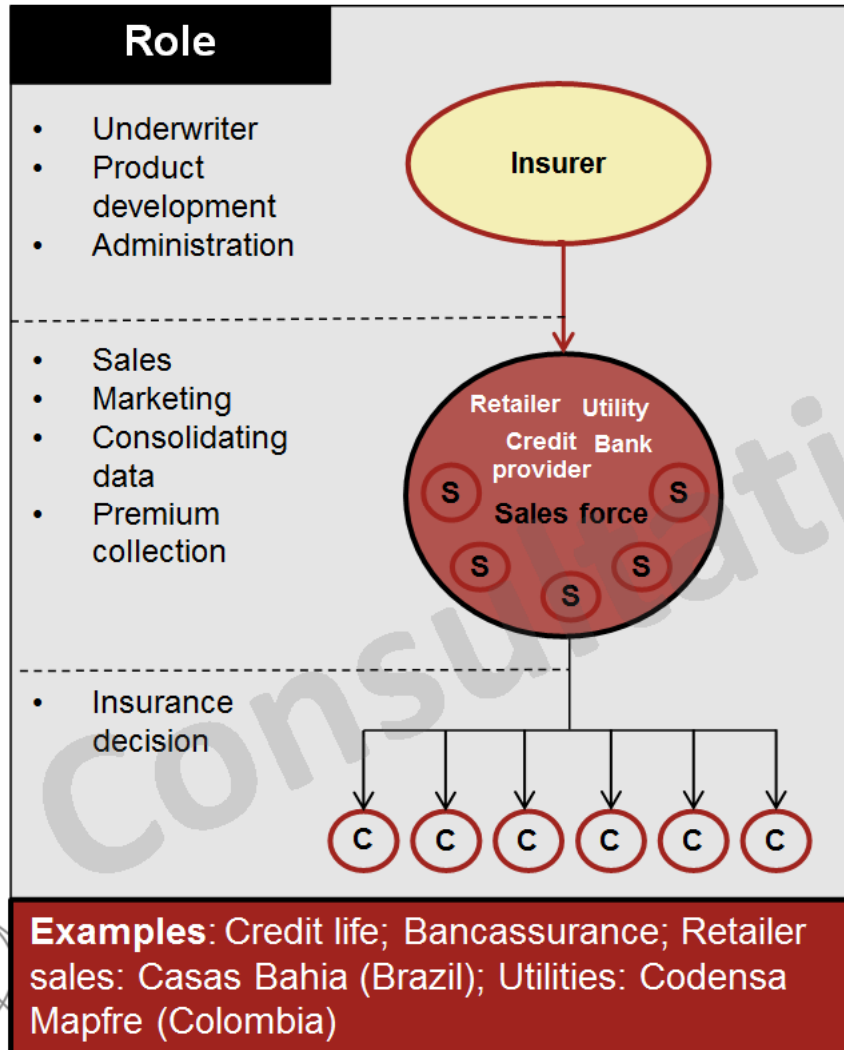
- One on one active sales through fulltime insurance agents, broker or call centre
- No client aggregator involved.

Evolution:

- Traditional sales model that insurers extend down-market for MI in parallel to or before experimenting with alternative mass distribution channels
- Post-alternative distribution movement “back to the agent” where advantage of face-to-face interaction becomes apparent



Model 2: Proxy sales forces



Description: Insurance sold by a non-insurance entity to existing clients, where the policy is marketed with the sale of another product.

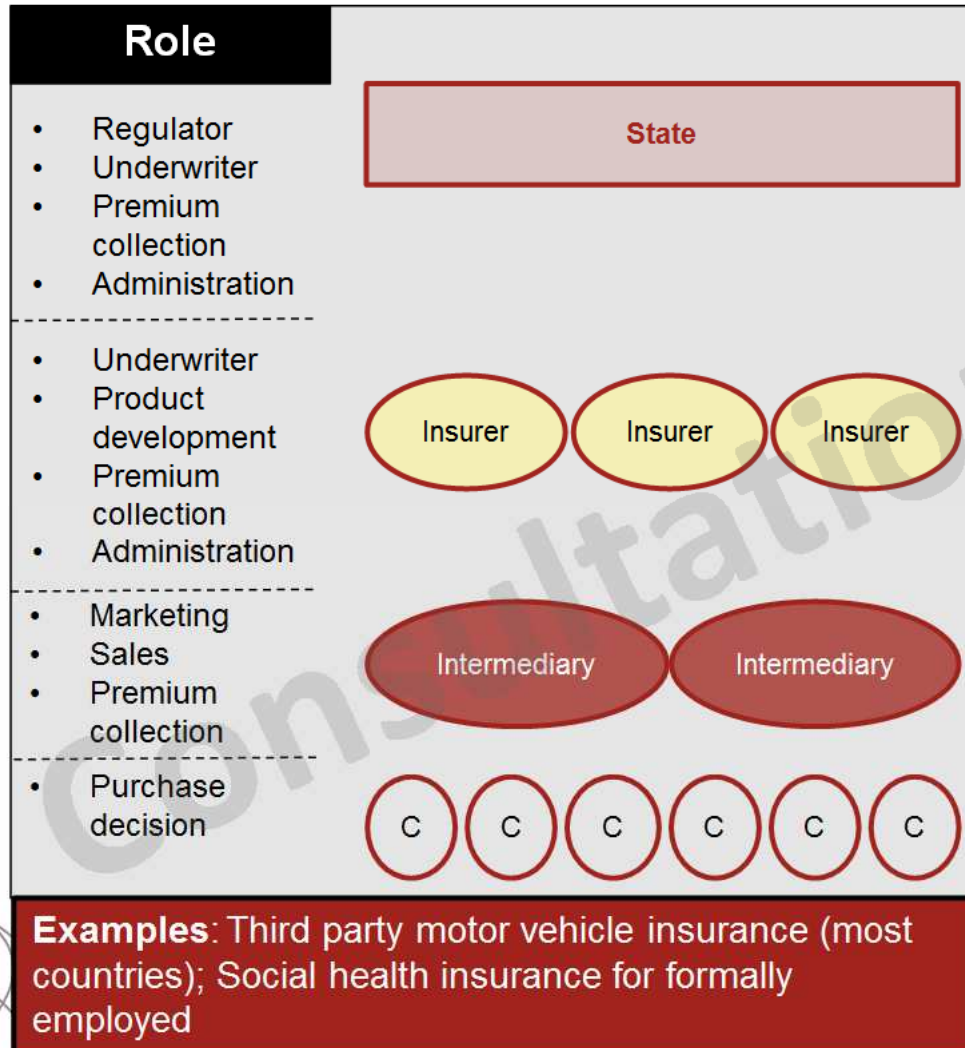
Evolution, cross-selling:

- Instigated by the insurer, aggregator or 3rd party.
- Evolves from aggregators wishing to diversify income.
- For insurers, aggregator represents an easy existing contact point to the target market.

Embedded products:

- Evolves from the demand for the underlying product, most frequently credit, and the need to protect the default risk for the supplier.
- Often first product sold in microinsurance market.

Model 3: Compulsory



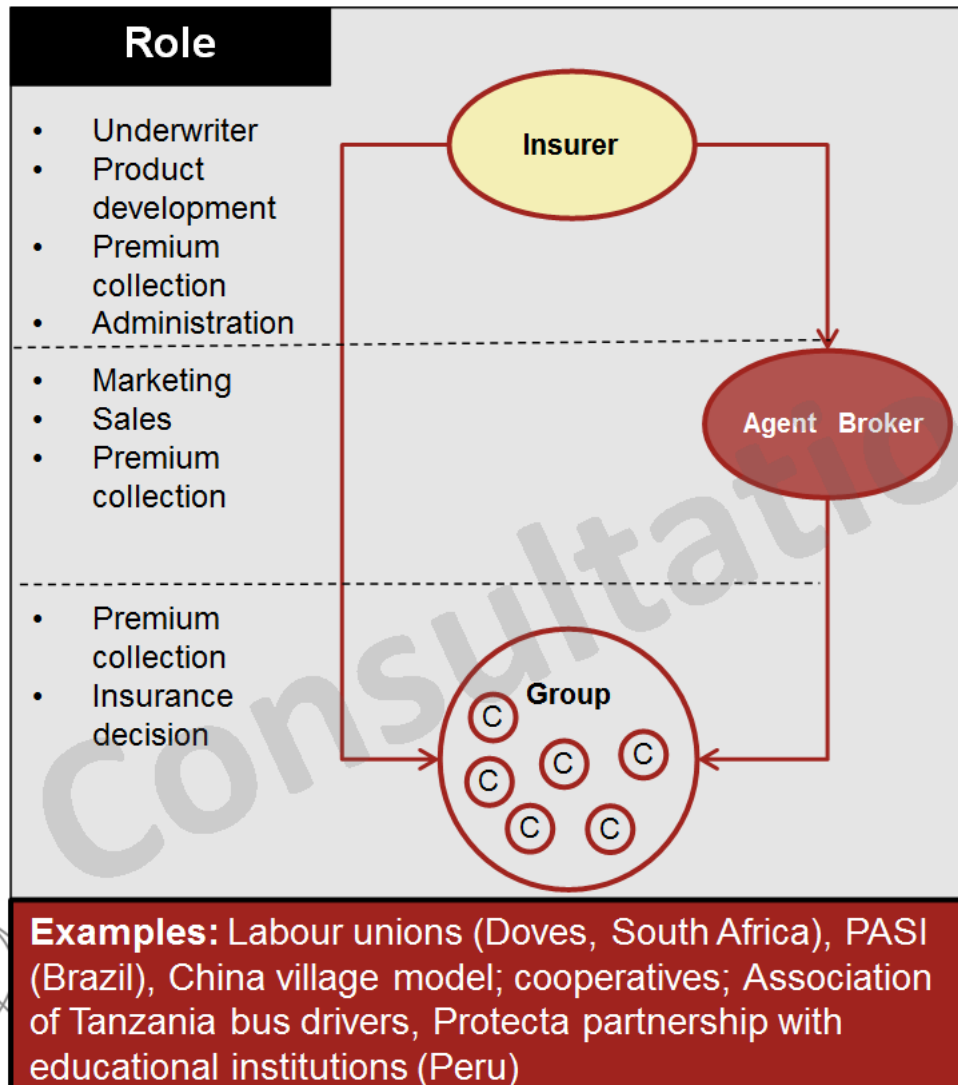
Description: Insurance required by regulation for certain categories of citizens.

Evolution:

- In response to specific public needs, e.g. protection of road users; health needs of employed population
- Often the "beginning" of asset insurance market



Model 4: Group decision



Description:

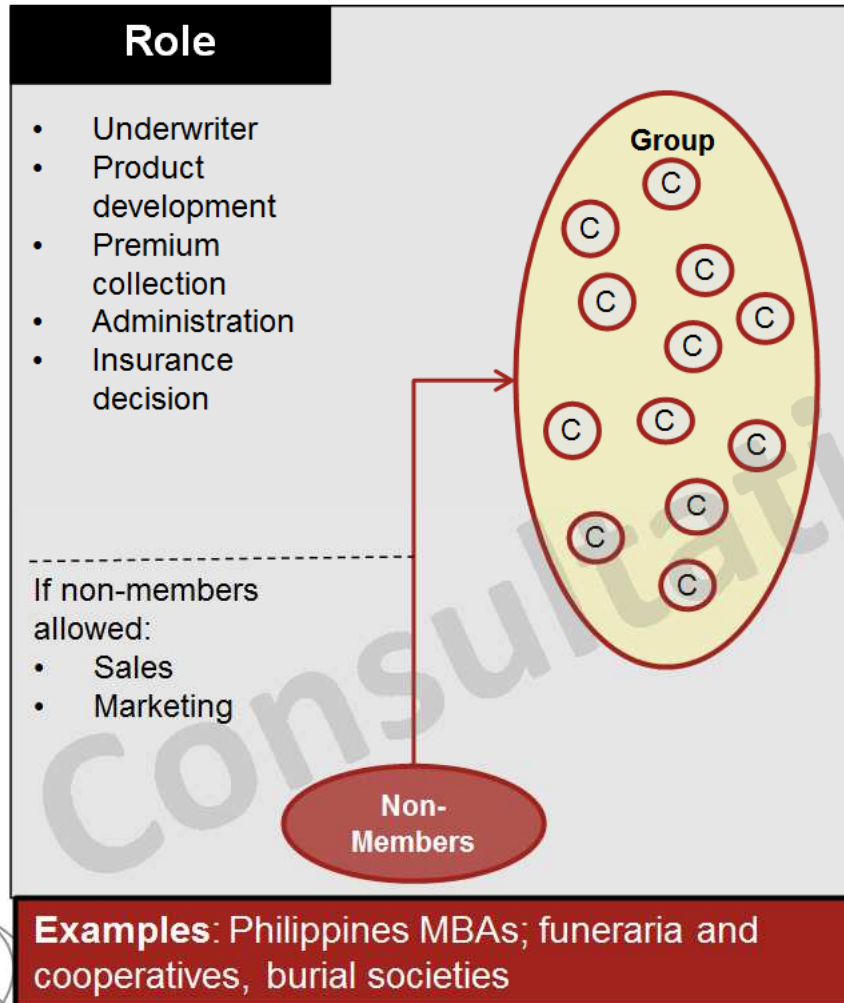
- Members of a group become policyholders by virtue of being members of the group rather than individual decision.
- Collective negotiation.
- Either universal cover by virtue of membership of group or opt-in.

Evolution:

- Evolves where there are existing groups which reduce distribution costs
- Insurers leverage the member database of the groups
- Groups offer value added services to members



Model 5: Local self-help



Description: Group of persons pool own risks

Evolution:

- Develops in the absence of appropriate/accessible formal alternatives or where people do not trust formal options or prefer own provision on the basis of solidarity.
- Strong community ties.



Model 6: Auto enrolment



Description: 3rd party purchases insurance on behalf of a pre-determined group of people.

Evolution *public provision*:

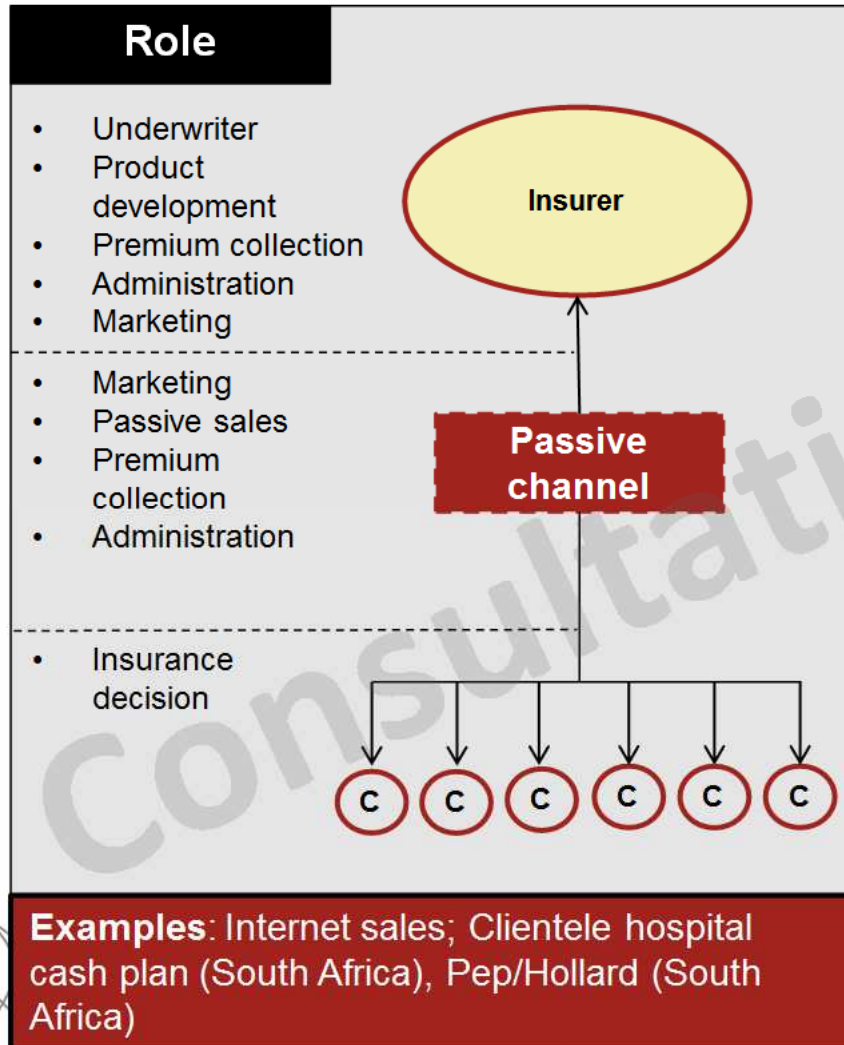
- Develops from a strong state mandate & social goals
- May be a response to market failures

Loyalty benefits:

- Value added service to reduce client churn
- 3rd party 'market-maker' such as innovative broker
- Opportunity for extending the reach of the insurance market in undeveloped markets



Model 7: Passive sales

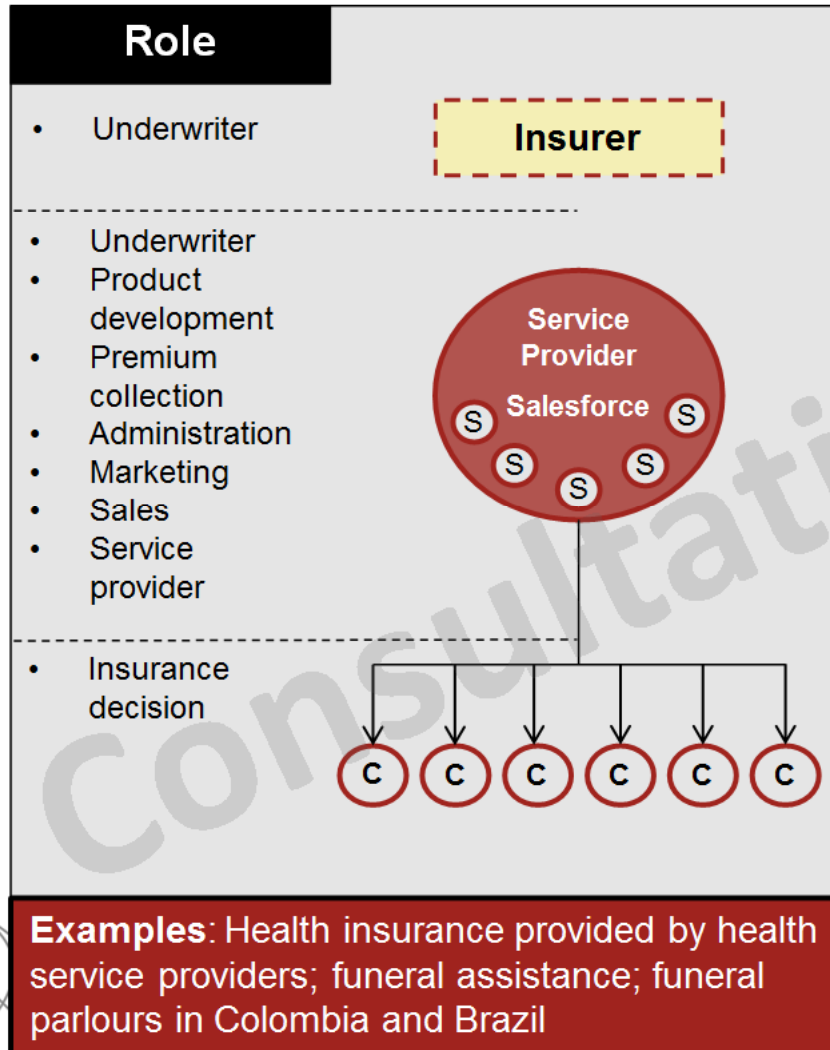


Description: Individual purchases insurance without intervention of sales person.

Evolution:

- Particular insurance product has become "commoditised."
- Market familiar with the concept of insurance.
- Atypical in undeveloped markets.

Model 8: Service-based sales

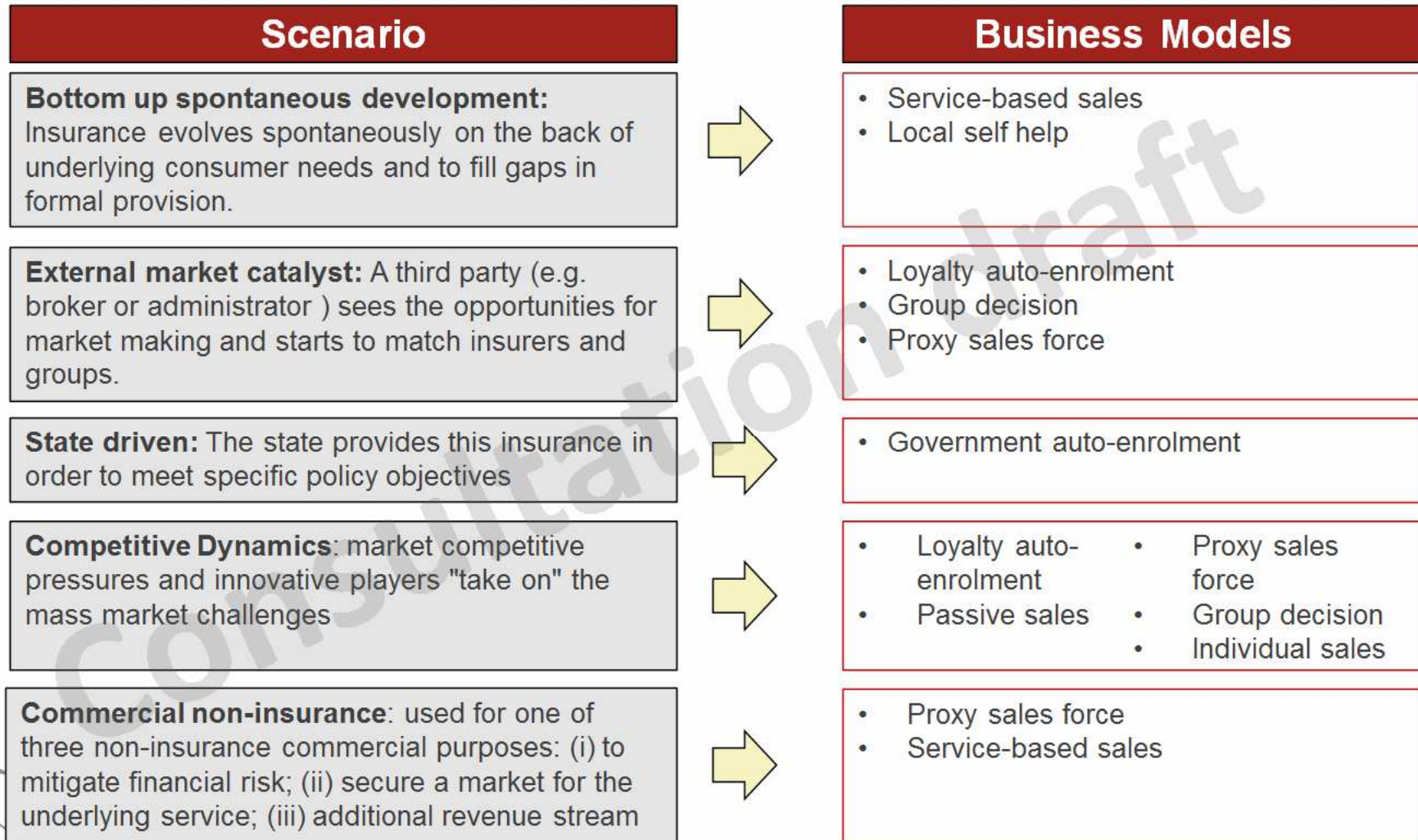


Description:

- Securing a service to be rendered in the future through an insurance policy.
- Voluntary individual choice.
- The entity which sells the insurance is the same one that provides the service.
- May be underwritten by the provider or by an insurer.

Evolution:

- Driven by strong demand for underlying service.
- Client cannot afford service without insurance.
- Does not require a well developed insurance sector to evolve.



Evolving microinsurance business models and their regulatory implications:

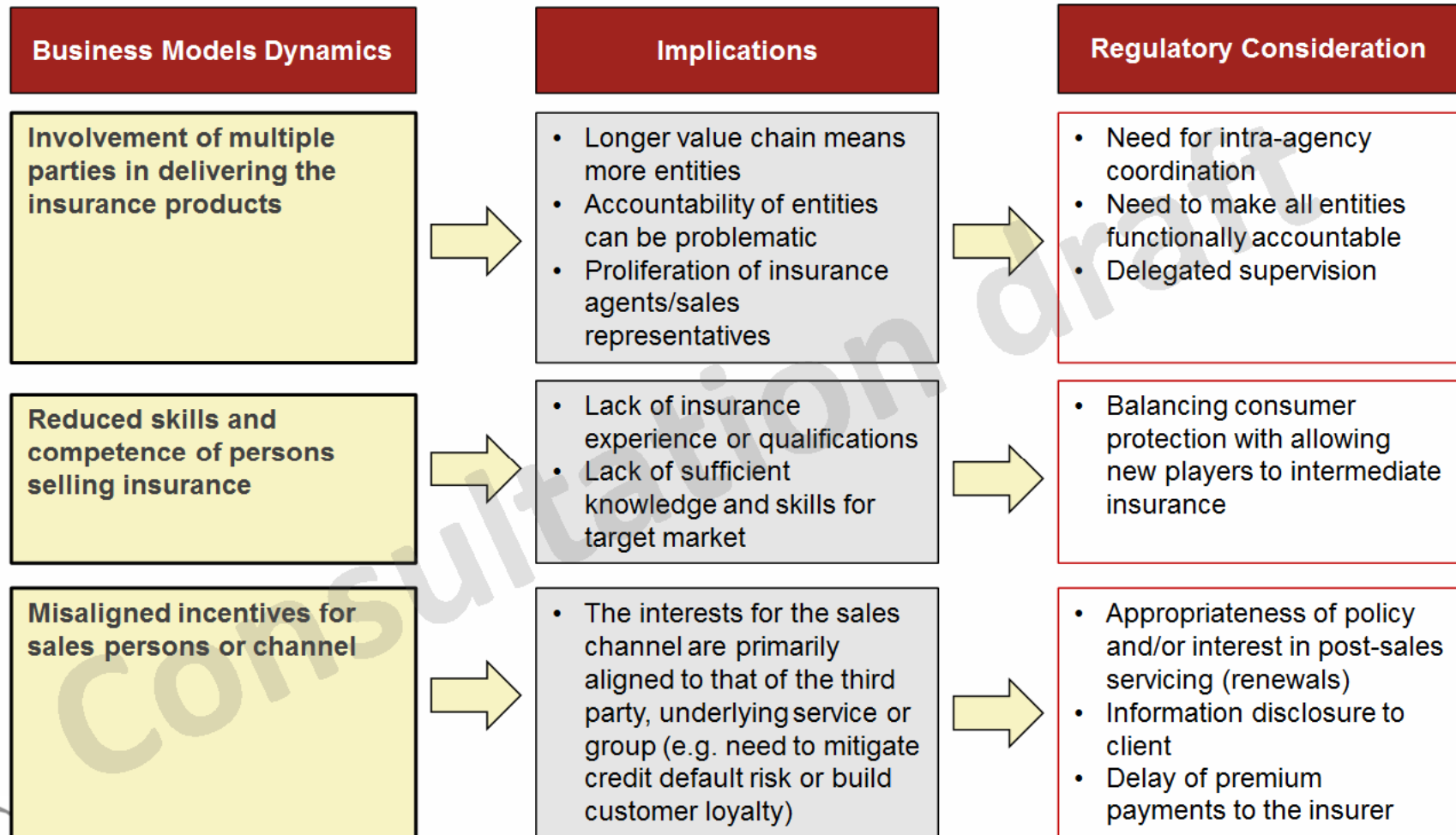
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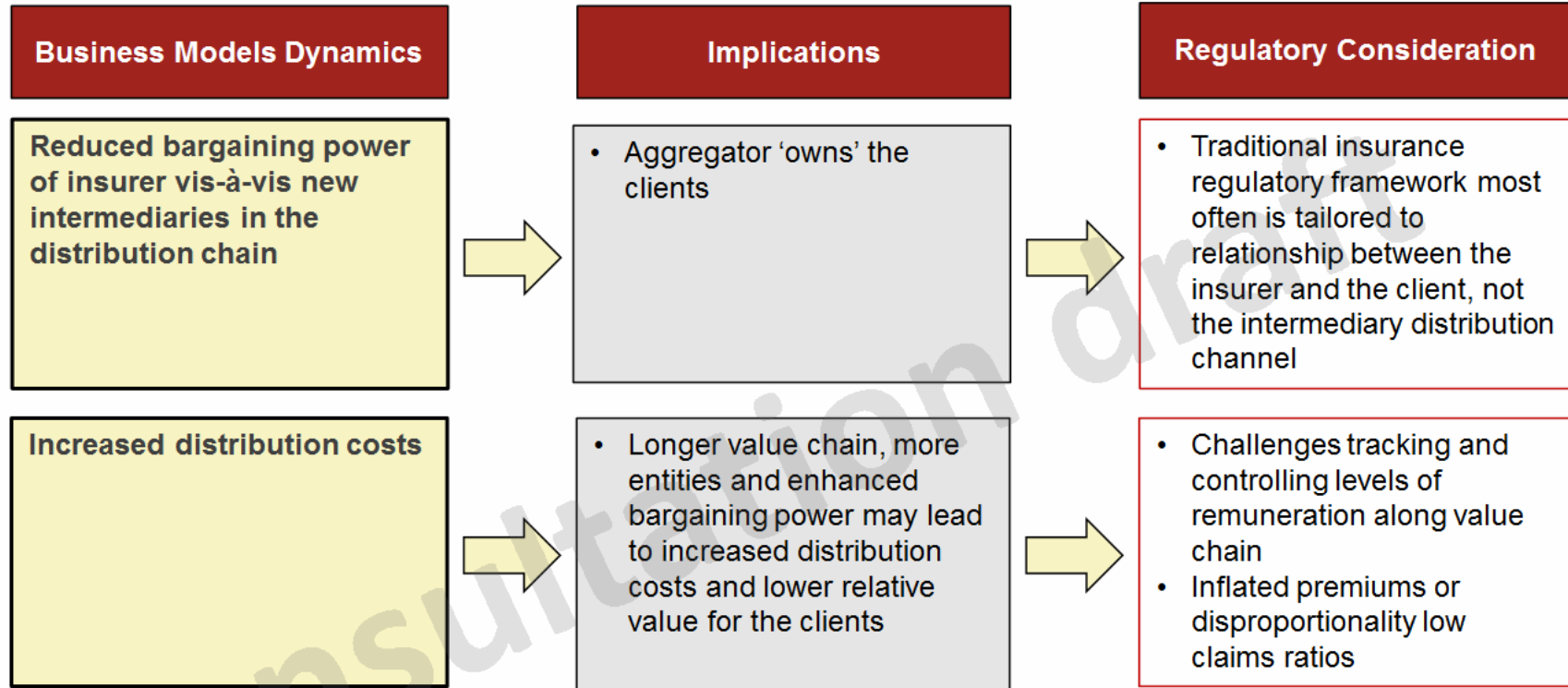
4. Risks, risk drivers and observed responses



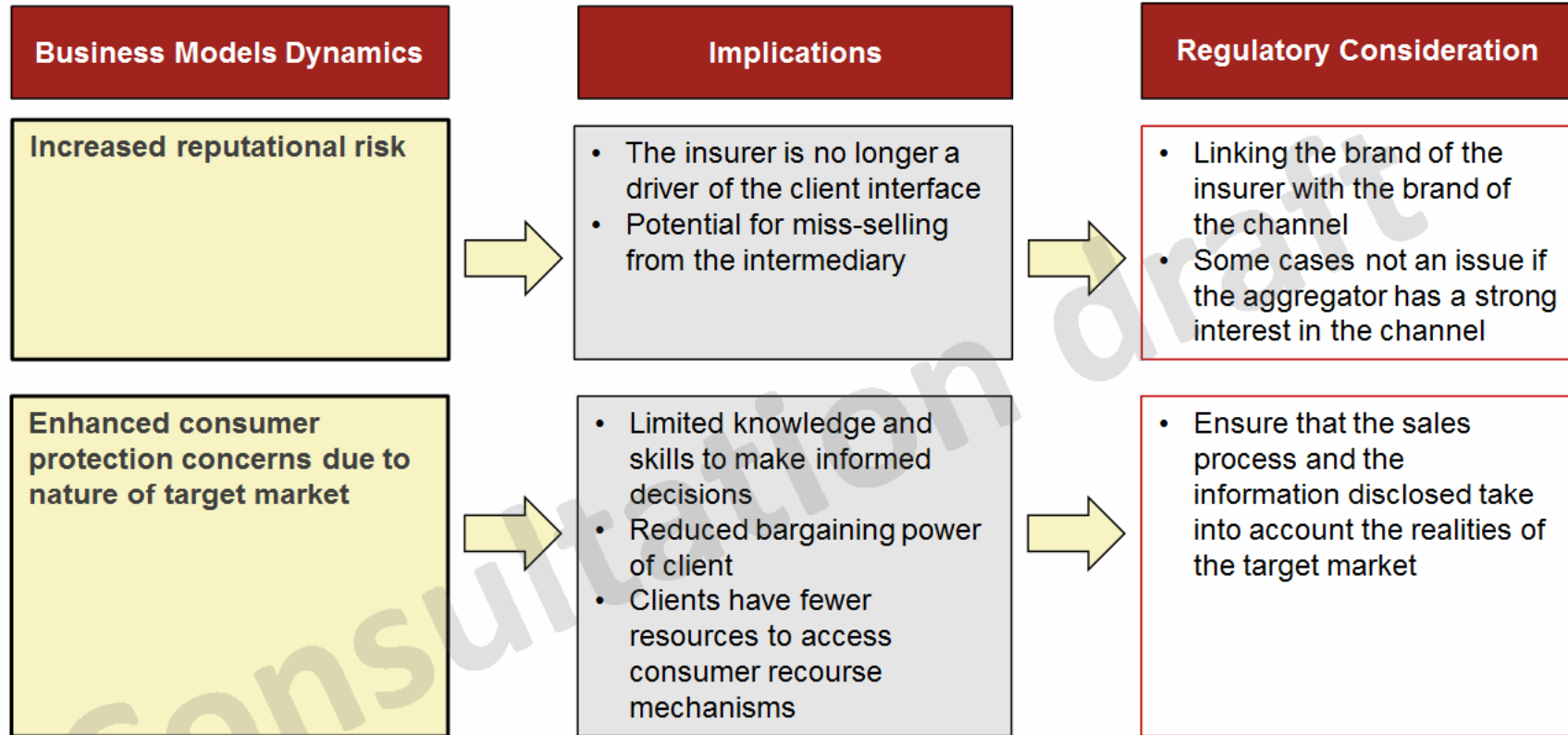
Market dynamics distinctive to microinsurance business models



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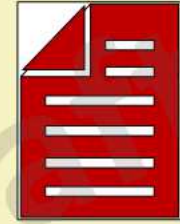
6 discrete microinsurance risks



Prudential Risk




Policy Awareness Risk




Aggregator Risk



Payments Risk



Sales Risk



Post sales risk







Risk




Risk Drivers



Observed responses

Prudential Risk



Risk that insurer is not able to keep its promises and deliver the benefits to the beneficiaries

Capacity of the underwriter

Lack of supervision of the underwriter

The underwriter is too small

Inadequate corporate governance

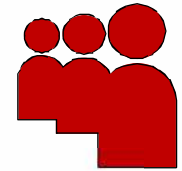
- Product restrictions
- Regulatory approval for products
- Concessionary capital req. for micro insurers

- Simple and regular reporting to the supervisor

- Min. threshold for size of risk pool

- Separate insurance business from other lines
- Min. corporate governance req.





Risk



Risk Drivers

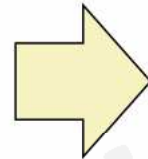


Observed responses

Aggregator Risk



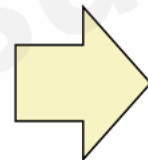
The risk of reduced client value and inappropriate products being sold to clients when an insurer accesses the aggregated client base of a non-insurance third party to sell its products through that channel



Power imbalance



- Cost disclosure
- Commission caps
- Contract disclosure

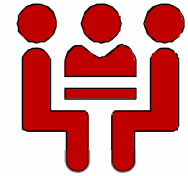


Financial interests of aggregator




- Claims and expense ratio reporting
- Public disclosure of partnership agreements

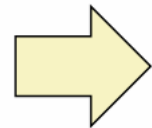




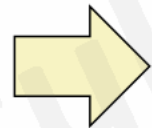
Sales Risk



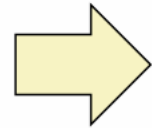
Risk that the salesperson will misrepresent the product to the client or sell a product that the client does not need.



Insufficient knowledge and skills



Incentives are misaligned



Inadequate accountability

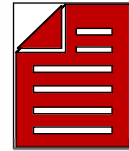


- Min. qualification and training requirements
- File and use requirement for marketing materials
- Insurers held liable for intermediaries

- Permit uncapped commissions
- Incentivise post-sale behaviour
- Code of conduct
- Product simplification req.
- Statutory cooling off period

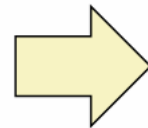
- Explicit disclosure req.
- Mandatory complaints resolution procedure
- Explicit registration req.
- Insurer held liable for intermediaries



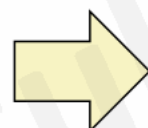


Policy Awareness Risk

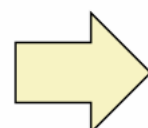
Risk that the insured is not aware that he or she has an insurance policy and is therefore unable to lodge a claim should the risk event occur



The absence of a specific sales action



“Tick box” sales process



Low level of client financial literacy

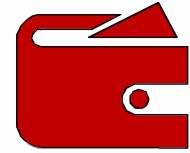


- Require a small contribution from consumer


- Require post-sales communication
- Require choice for mandatory product lines
- Statutory cooling off period

- Consumer education/awareness campaign

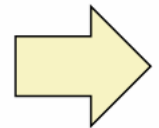




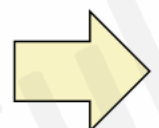
Payments Risk



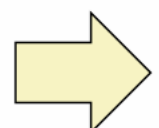
Risk that the premium will not reach the insurer, that the premium will not be paid on the due date or that the cost of collecting the premium is disproportionate



Intermediary who can delay premium payment



Seasonal or irregular income of clients



Mandatory payment system req.



- Max. period for intermediary to pay to the insurer.
- Require financial soundness of intermediaries
- Require that the receipt of the premium by the intermediary is imputed as the receipt of the premium by the insurer.

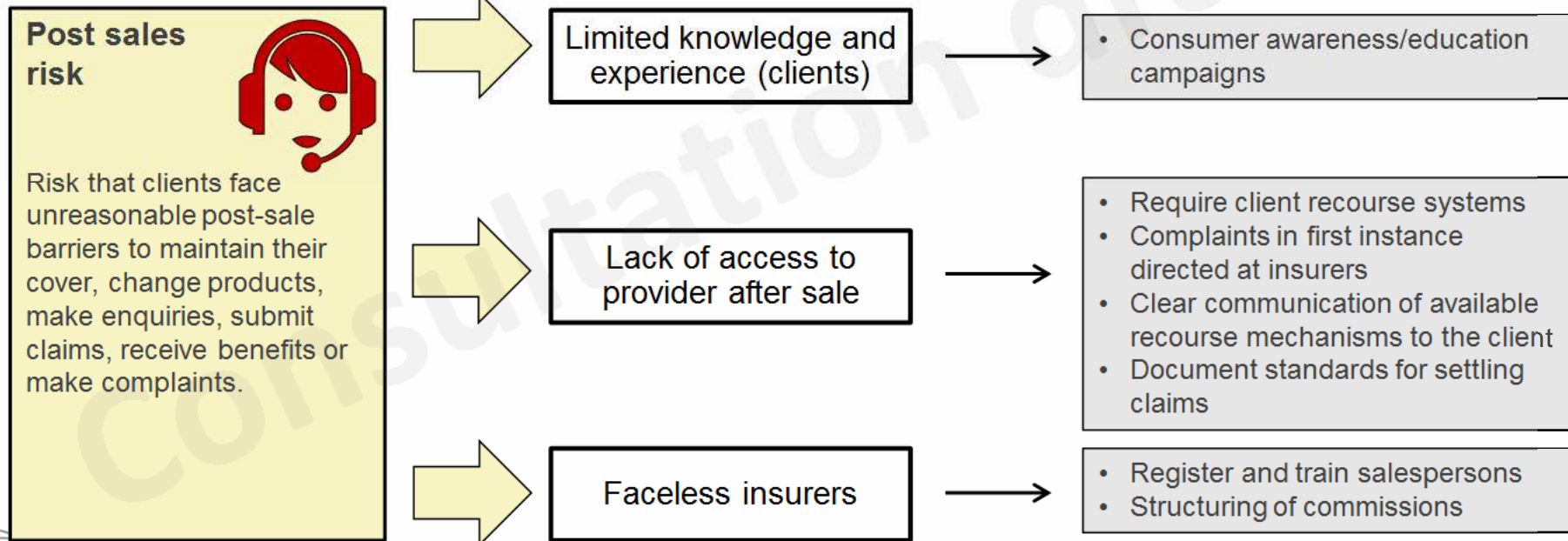


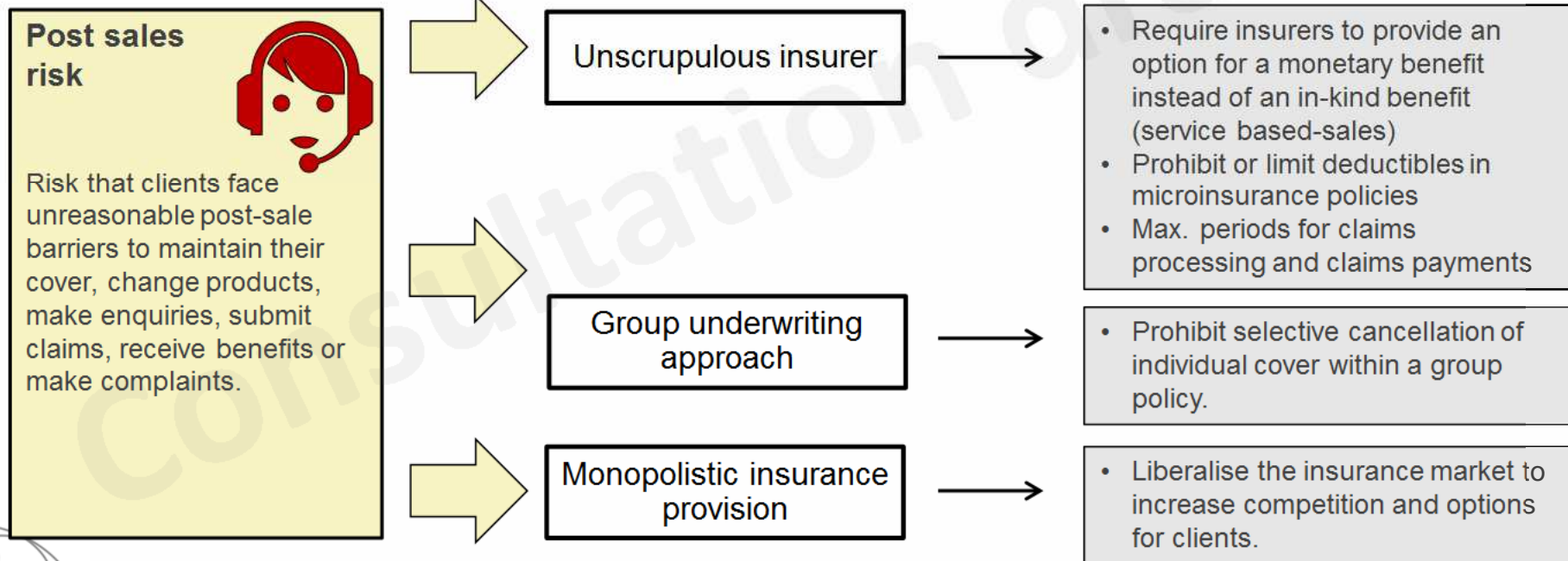
- Statutory grace period
- Req. more flexible premium collection/payment methods
- Regulate the structure of payments



- Allow in cash or non-bank payment systems premium payment







Risk profiles of the different business models

						
Individual sales			X		X	X
Proxy sales		X	X	X	X	X
Compulsory sales	X			X		X
Group decision		X		X	X	
Local self-help	X					
Auto enrolment				X		X
Passive sales			X			X
Service-based sales	X		X			





www.access-to-insurance.org

stefanie.zinsmeyer@access-to-insurance.org

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