Insurance innovation: needs, gaps and opportunities

Innovation Forum and FSDU Insurance Challenge Fund Launch

Kampala, 10 December 2018
Contents

• The changing insurance landscape globally
• The need for insurance: unpacking the risk experience of Ugandans
• A closer look at specific target markets: what are the gaps and opportunities?
• The innovation imperative
Innovation is changing the insurance game in the emerging world
Smart solutions across the product cycle...

**Product development**
Behavioral data from sensors used in risk assessment and pricing.

**Sales**
Chatbots for personalised and efficient sales.

**Premium collection**
Flexible payments and coverage updates via SMS.

**Servicing and risk management**
Nudges and rewards for less risky behaviour.

**Claims processing**
- Aerial images for accurate claims.
- AI and ML to handle claims
- Voice and facial analytics for detecting fraud.
...and new models that challenge the very foundation of insurance

What is insurance?
- P2P models without a licensed risk carrier

What can I regulate?
- Models operating outside national jurisdiction
- Use of cryptocurrency

Who is an intermediary?
- New players that don’t fit in traditional broker or agent categories
- Robo advice and black box algorithms

What is insurance?
What is insurance?
What is insurance?
Insurance needs in Uganda
Risk experience

Most Ugandans have faced insurable risks within the last year.
A substantial gap between plans to cope and reality

Insurance not even considered

- Borrowed money: 42% (Plan), 6% (Coped)
- Used savings: 16% (Plan), 4% (Coped)
- Sold an asset obtained for this: 14% (Plan), 11% (Coped)
- Nothing/Don’t know: 8% (Plan), 3% (Coped)
- Sold agriproducts: 6% (Plan), 2% (Coped)
- Worked more/did casual jobs: 15% (Plan), 6% (Coped)
- Other: 7% (Plan), 6% (Coped)
- Cut down on expenses: 30% (Plan), 22% (Coped)
- Sold asset not obtained for this: 2% (Plan), 0% (Coped)

Coped vs. Plan
Low overall uptake
Concentrated in health insurance

Only 1.4% of adults have any kind of insurance

Source: FinScope 2018 (2017 data)
Understanding, lack of value major barriers

Generally low awareness, but low claims ratios suggest low value

![Pie chart showing reasons for lack of insurance awareness]

- Not know how works: 40%
- Benefits unknown: 25%
- Affordability: 20%
- Other: 9%
- Do not trust insurers: 4%

73% of reported a lack of information

<table>
<thead>
<tr>
<th>Category</th>
<th>2013-17 Average Loss Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Individual</td>
<td>16.80%</td>
</tr>
<tr>
<td>Life Group</td>
<td>33.48%</td>
</tr>
<tr>
<td>Medical</td>
<td>56.14%</td>
</tr>
<tr>
<td>DAP</td>
<td>55.46%</td>
</tr>
<tr>
<td>Industry average (%)</td>
<td>32.50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Life Category</th>
<th>2013-17 Average Loss Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire</td>
<td>19.08%</td>
</tr>
<tr>
<td>Marine/Aviation</td>
<td>28.91%</td>
</tr>
<tr>
<td>Motor</td>
<td>38.72%</td>
</tr>
<tr>
<td>Public Liability</td>
<td>37.16%</td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>48.57%</td>
</tr>
<tr>
<td>Burglary</td>
<td>42.09%</td>
</tr>
<tr>
<td>Engineering</td>
<td>29.25%</td>
</tr>
<tr>
<td>Personal Accident</td>
<td>31.49%</td>
</tr>
<tr>
<td>Bonds</td>
<td>16.69%</td>
</tr>
<tr>
<td>Medical</td>
<td>61.80%</td>
</tr>
<tr>
<td>Misc. Accident</td>
<td>50.01%</td>
</tr>
<tr>
<td>Industry average</td>
<td>42.15%</td>
</tr>
</tbody>
</table>
Lack of income is not the binding constraint to extending insurance reach

PPP exchange rate: 1143 UGX to USD

- $1/day → UGX 289k/year
  - 28% of adults below
- $2.5/day → UGX 724k/year
  - 48% of adults below
- $5/day → UGX 1,45m/year
  - 65% of adults below
- $10/day → UGX 2,9m/year
  - 80% of adults below

3.76 million adults earning more than 10 USD per day
250,000 already insured
Target markets
Introducing the target markets

Characterised by **main** source of income

- Farmer: 8.8
- Dependent: 3.7
- Casual labour: 2.7
- Trader: 1.1
- Salaried: 1.0
- Other: 0.8
- Service provider: 0.5

Millions of adults
# Introducing consumer target markets

<table>
<thead>
<tr>
<th>Group</th>
<th>Share of adult population</th>
<th>Average income (UGX million)</th>
<th>Phone access</th>
<th>Bank account</th>
</tr>
</thead>
<tbody>
<tr>
<td>All adults</td>
<td>18.6 million adults</td>
<td>UGX3.1 mil</td>
<td>70%</td>
<td>10%</td>
</tr>
<tr>
<td>Salaried employees</td>
<td>5%</td>
<td>UGX4.4 mil</td>
<td>87%</td>
<td>49%</td>
</tr>
<tr>
<td>Service providers</td>
<td>2%</td>
<td>UGX9.1 mil</td>
<td>95%</td>
<td>14%</td>
</tr>
<tr>
<td>Trader</td>
<td>6%</td>
<td>UGX4.4 mil</td>
<td>85%</td>
<td>11%</td>
</tr>
<tr>
<td>Informal employees</td>
<td>15%</td>
<td>UGX2.8 mil</td>
<td>65%</td>
<td>8%</td>
</tr>
<tr>
<td>Dependants</td>
<td>20%</td>
<td>UGX0.6 mil</td>
<td>60%</td>
<td>7%</td>
</tr>
<tr>
<td>Farmers</td>
<td>48%</td>
<td>UGX2.9 mil</td>
<td>71%</td>
<td>7%</td>
</tr>
</tbody>
</table>
Insurance uptake within target groups

Formal insurance concentrated in salaried employees with regular income

Ease of reach

Salaried: 5.0% (50 thousand adults)
Service provider: 3.0% (13 thousand adults)
Trader: 2.5% (28 thousand adults)
Dependent: 1.9% (69 thousand adults)
Casual labour: 1.7% (47 thousand adults)
Farmer: 0.5% (47 thousand adults)

1.4% uptake by population

Thousand adults
Informal more attractive than formal

Informal membership quite pervasive – opportunity to learn & leverage?

Service provider
Farmer
Trader
Salaried
Casual labour
Dependent

41% uptake by population

4,336,947

Adults

Enterprises
Distribution channels focus on easy to reach
But many potential touch points even beyond

- MFIs
- Agents
- Mobile
- Bancassurance
- Web sales
- Brokers

Ease of reach: Easy
Target markets: Hard
Digital platforms may offer a new opportunity to reach small business and individuals with insurance

284 unique platforms

81% of which are homegrown
Digital platforms in Uganda

- **Zambia**: 26 platforms, 5 financial services, 3 insurance
- **Uganda**: 31 platforms, 2 financial services, 1 insurance
- **Tanzania**: 34 platforms, 2 financial services, 1 insurance
- **Rwanda**: 23 platforms, 4 financial services, 3 insurance

Platforms
Financial services
Insurance
Digging deeper: specific target market opportunities
Much untapped potential within higher income market

PPP exchange rate: 1143 UGX to USD

3.76 million adults earn > 10USD per day of which:

250 thousand already insured
1. Easy to reach salaried employees

Easiest to reach with easy-to-use touch points

**Connected employees** – very easy to reach

- Income levels are over 10 USD per day
- Have a mobile phone and bank account
- Salaried earning a regular income

- 3.8 million adults earn 10USD per day 
- Of which 2.8 million have a mobile phone
- Of which 1 million have a bank account
- Of which 0.4 million income salary/wages

- 361 thousand without insurance
- 40,000 (9%) insured
1. Easy to reach salaried employees

Risk experienced by connected employees

- Health: 45%
- Income: 40%
- Family & friends: 25%
- Other: 20%
- Death: 15%
- Business: 10%
- Agri: 5%
- Natural disaster: 3%
- Accident: 2%
- Theft: 1%

Sources: fsdunderstand, fsdunderstand, fsdunderstand, fsdunderstand, fsdunderstand, fsdunderstand, fsdunderstand, fsdunderstand, fsdunderstand, fsdunderstand.
Health insurance

Product and distribution summary

• Public facilities significant:
  - When ill- 64% use public health care facility, 30% use private health care & 3% go to pharmacy

• Highest use product category currently, in clear demand, yet only a drop in the ocean
  - Provided by all types of insurers, but many insurers seem wary of high loss ratios
  - Small HMO market
Examples of health insurance innovations from other markets
2. Wealthy farmers

Harder to reach but informal insurance touch points and ability to scale

- Wealthy farmers – reachability not as clear as only touch point is
- Income levels are over 10 USD per day
- Are part of an informal savings group
- Main income source is farming

3.8 million adults earn 10 USD per day

Of which 1.6 million are farmers

Of which 925 thousand are part of a savings group

- 24 thousand (3%) insured
- 901 thousand without insurance
2. Wealthy farmers – risk experience

Agriculture risk is high with health risk also significant
# Agriculture Risks

<table>
<thead>
<tr>
<th>Risk</th>
<th>Average Severity</th>
<th>Average Frequency</th>
<th>Worst Case Scenario</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop pest &amp; diseases</td>
<td>very high</td>
<td>very high</td>
<td>very high</td>
<td>5.00</td>
</tr>
<tr>
<td>Post harvest loss</td>
<td>very high</td>
<td>very high</td>
<td>high</td>
<td>4.75</td>
</tr>
<tr>
<td>Price risk food &amp; cash crops</td>
<td>very high</td>
<td>high</td>
<td>high</td>
<td>4.35</td>
</tr>
<tr>
<td>Livestock pest &amp; diseases</td>
<td>high</td>
<td>very high</td>
<td>medium</td>
<td>4.10</td>
</tr>
<tr>
<td>Droughts</td>
<td>medium</td>
<td>medium</td>
<td>very high</td>
<td>3.50</td>
</tr>
<tr>
<td>Counterfeit inputs</td>
<td>medium</td>
<td>very high</td>
<td>low</td>
<td>3.40</td>
</tr>
<tr>
<td>Karamoja cattle raids</td>
<td>low</td>
<td>high</td>
<td>very low</td>
<td>2.37</td>
</tr>
<tr>
<td>Floods</td>
<td>very low</td>
<td>high</td>
<td>very low</td>
<td>1.75</td>
</tr>
<tr>
<td>Hailstorms</td>
<td>very low</td>
<td>high</td>
<td>very low</td>
<td>1.75</td>
</tr>
<tr>
<td>Thunderstorms</td>
<td>very low</td>
<td>high</td>
<td>very low</td>
<td>1.75</td>
</tr>
<tr>
<td>All other natural risks</td>
<td>very low</td>
<td>high</td>
<td>very low</td>
<td>1.75</td>
</tr>
<tr>
<td>Northern Uganda insurgency</td>
<td>very low</td>
<td>very low</td>
<td>medium</td>
<td>1.50</td>
</tr>
</tbody>
</table>
3. Successful business owners
Similar to salaried employees but don’t have regular income

- Small business owners – easy to reach
  - Income levels are over 10 USD per day
  - Have a mobile phone
  - Income from either trading or providing a service (less regular)

3.8 million adults earn 10 USD per day

Of which 2.8 million have a mobile phone

Of which 0.57 million are traders or service providers

543 thousand without insurance

27 thousand (5%) insured
Risks experienced by business owners

Strong agriculture links and personal risks are still important

- Agri: 70%
- Health: 50%
- Death: 30%
- Business: 11%
- Accident: 10%
- Income: 20%
- Other: 60%
- Family & friends: 0%
- Theft: 10%
- Natural disaster: 0%
Serving this market may require an in-depth understanding of the value chain: The example of transport in Ghana
Innovation in the South African transport market
Use of technology to help with risk management

Hollard

- Hires vetting companies to check drivers’ competency.
- Hires specialist driver-training firms to ensure drivers receive adequate training.
- Prerequisite that all vehicles are roadworthy and if they are valued over USD20,000, they must be fitted with a tracking device.

MiWay

- Partners with Ctrack who provide MiWay’s heavy commercial vehicle clients with insurance telematics solutions.
- Provides granular data on driver behaviour and location services.
Conclusion
Three immediate target market opportunities

Significant potential to expand insurance uptake

Risks

<table>
<thead>
<tr>
<th>Health risks</th>
<th>Agri risks</th>
<th>Bus. risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>361,000 adults without insurance</td>
<td>901,000 adults without insurance</td>
<td>543,000 adults without insurance</td>
</tr>
</tbody>
</table>

Distribution

<table>
<thead>
<tr>
<th>Mobile access</th>
<th>Informal groups</th>
<th>Digital platforms</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Why are these opportunities not yet tapped?

Some movers, not enough shakers

Target market

• Low understanding, lack of trust

• Some retail innovation, but few disrupters

• Risk aversion, lack of investment in innovation & strategic focus on new business development

• Investment and compliance challenges for new innovators

Industry

• Regulatory framework generally conducive for incumbents

• MI framework potential

• More broadly, no explicit space for value chain players outside brokers or agents

Regulation
Not just business as usual

Scope for innovation

1. Understanding consumer needs
2. In-life benefits/rewards
3. Channels and partnerships
4. Nudging customers
5. Claims processing
Discussion
What can be done?

Discussion

• **Bottlenecks to innovation?**
  - Market
  - Regulatory framework

• **What is needed to unlock the opportunities?**
  - Health
  - Agriculture
  - Small business

• **Role for different types of players to address?**