Insights on Inclusive Insurance | Oct. 2017

Key Approaches to Inclusive Insurance:

- Leveraging digital channels and new "insurtech" (insurance technology) innovations to connect with, and serve, low-income customers.
- Simplifying products so they are easy to understand, easy to enroll in, and easy to claim against. For institutions, such simple products engender trust and are lower cost to provide.
- Implementing new business models and products to provide and administer the risk mitigation solutions at scale that meet low-income customers' needs.
- Finding new distribution channels and aggregators--from telcos to farmer cooperatives to banks—to identify and connect with low-income customers.

Insurers are expanding into new markets and reaching underserved customers through new technologies, business models, product designs, a deeper understanding of customers, and partnerships. This wave of efforts by insurers and entrepreneurs recognizes the market opportunity and needs of approximately 3.8 billion people globally who need better risk management solutions, and companies are pursuing it as a mainstream business.

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IIF Institute of International Finance

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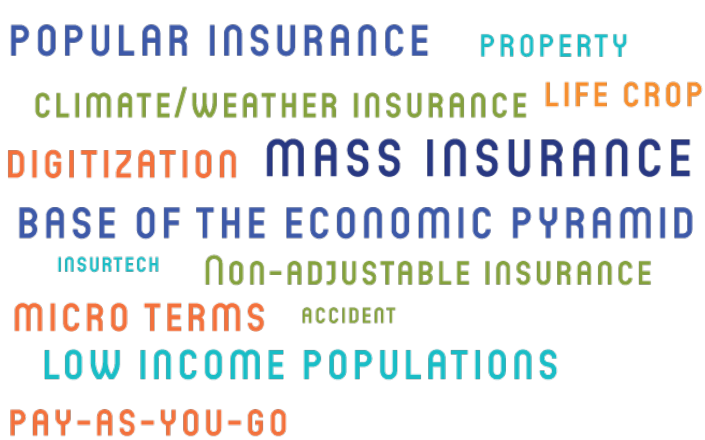
WHY DOES INCLUSIVE INSURANCE MATTER?

Even for people with very little disposable income, insurance can be a useful and vital tool to manage financial risks, such as stresses related to illness, crop failures, natural disasters, or income loss due to the death of a wage earner. For this population, insurance can help avoid drastic coping strategies when they experience a shock, such as selling precious productive assets or having to take children out of school and putting them to work.

We use the term "inclusive insurance" to encompass many different approaches to reaching the unserved, underserved, vulnerable, or low-income populations in emerging markets with appropriate and affordable insurance products. These range from microinsurance for people with very little disposable income to new products and services for an emerging middle class around the globe who have not been served by traditional insurance.



Insurers we spoke with said they are pursuing inclusive insurance as a business. They see profit margins that are proportionate, not any lower than those of conventional products. With large distribution partners, they are able to multiply those margins by large volumes while meeting the needs of customers.

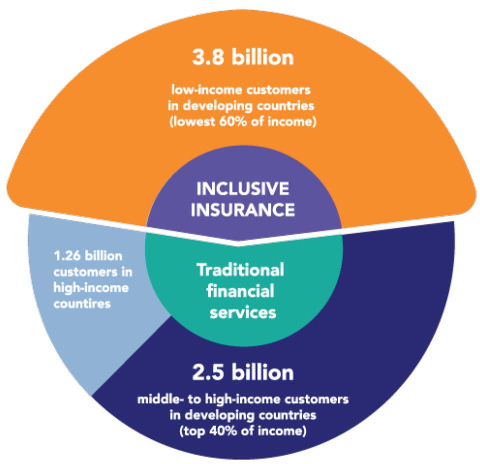
THE INCLUSIVE INSURANCE LANDSCAPE

The market for inclusive insurance is vast, largely untapped, and potentially profitable. An estimated 3.8 billion low- and middle-income people in emerging markets compose the addressable market for insurance and have unique needs.

IIF member firms see this market segment is more addressable than they previously thought. Digital innovations and the historical demographic shift from low to middle incomes have made it commercially viable and sustainable. This change is recent, so old assumptions should be revisited to recognize that this is now a profitable segment.

GLOBAL MARKET SIZE FOR INCLUSIVE INSURANCE

World population by income

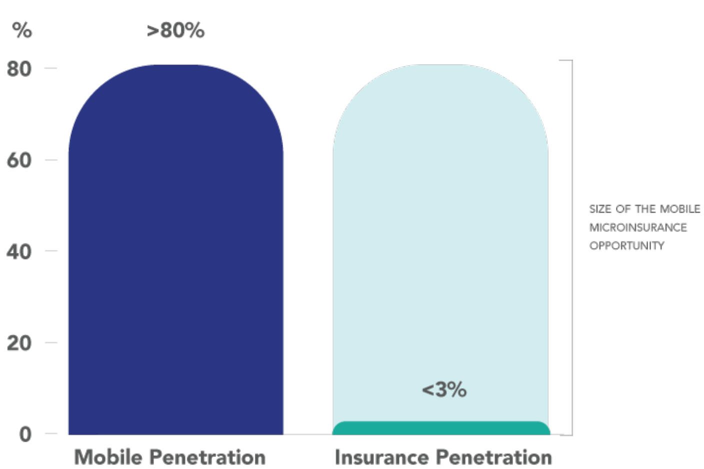


Source: Adapted from Allianz, Emerging Consumers 2016 Full Year Report, using updated World Bank population number.

Industry analysts at Cenfri believe that inclusive insurance is one of the top three most profitable opportunities that insurers can invest in in emerging markets given limited capital and human resources. Further, they see it promises even greater profitability in the future with follow-on benefits for first movers.

MOBILE PENETRATION VS. INSURANCE PENETRATION IN EMERGING MARKETS

There is great potential to reach and serve new customers through mobile channels. Many insurers are already taking advantage of broad mobile penetration including in low-income customer segments.



Source: BIMA

In 2005, only seven of the major insurance companies were involved in microinsurance. In 2011, there were 33. By 2016, 60 major insurers, including AIG, Allianz, AXA, Metlife, and Zurich, among others, were active in microinsurance.

-"Insurance Inclusion: Reaching Undeserved Populations with Tech," IIIF, 2016.

OVERCOMING CHALLENGES

In the broadest terms, the challenges of providing insurance to lower-income population segments are similar to those of providing mainstream insurance: identifying, understanding, and connecting with customers; providing relevant products; and carrying out the administrative work of collecting premiums and paying claims. For customers at the base of the economic pyramid, the small incomes from which premiums must come require insurers to solve these challenges in highly cost-efficient ways. Adding to the intensive cost pressure, several factors amplify the challenge of connecting with these customers: their remote locations, lower education levels, and lack of experience with formal institutions.

SIMPLER AND STREAMLINED PRODUCTS

Simplifying and streamlining products is a recurring success factor for inclusive insurance. Insurance products that are easy to understand, easy to enroll in, and easy to claim against are a key to driving adoption as simplicity is transparent and "friendly," helping to create trust. Streamlined products are also easy to manage, cutting administrative costs.

THEY INCLUDE:

- **PAY-AS-YOU-GO MODELS, OFFERING MICROTERMS AND MICROPAYMENTS TO BUILD CUSTOMER ACCEPTANCE**
- **ELIMINATING COSTLY VERIFICATION SCREENINGS TO IDENTIFY EXCLUSIONS**
- **OFFERING INSURANCE POLICIES WITHOUT ANY FINE PRINT**
- **TRIGGERING PAYOUTS BASED ON VERIFIABLE EVENTS OR DATA, INSTEAD OF CLAIM SUBMISSIONS, WHICH ENGINEERS QUICKER AND MORE FREQUENT PAYOUTS TO CONSUMERS**
- **SIMPLIFYING USER INTERFACES TO ALLOW CONSUMERS TO TRANSACT WITH JUST ONE CLICK**
- **BUNDLING WITH OTHER INSURANCE PRODUCTS OR OTHER FINANCIAL SERVICES TO PROVIDE A SEAMLESS USER INTERFACE ADDRESSING A RANGE OF CUSTOMER NEEDS**

Not all products are equal in availability and uptake—and these trends vary by region. In Africa and Latin America, life insurance is the most prevalent microinsurance product, whereas in Asia and Oceania, accident insurance is the most prevalent. Overall, life, accident, and credit life insurance dominate the inclusive insurance landscape, with health, property, and agriculture insurance at lower levels of adoption. Insurers are also creating new offerings to help vulnerable people in emerging economies mitigate climate-related risks, including natural disasters and food insecurity.

Inclusive insurers start with the customer, tailoring products to what they need and not what they don't need.

DISTRIBUTION PARTNERSHIPS FOR CONNECTING WITH CUSTOMERS

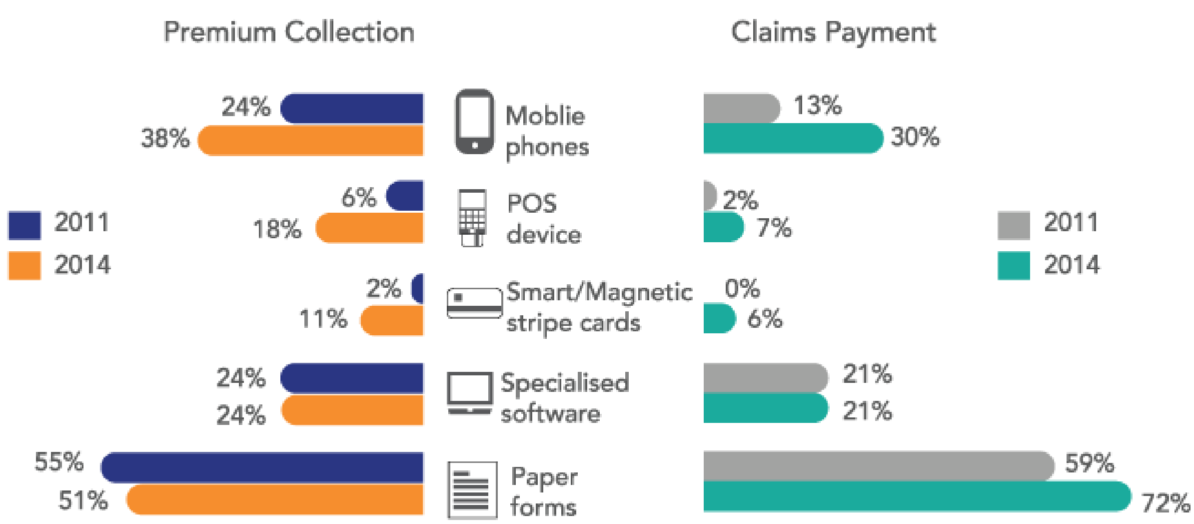
Aggregators enable insurers to reach scale very quickly. Financial institutions are the most frequent partners, especially institutions with experience in low-income market segments, such as rural banks, microfinance institutions and credit unions. They have customer relationships, are trusted, and know how to sell financial products to new markets.

THE CHANGING ECOSYSTEM OF DISTRIBUTION CHANNELS

TECH IS TRANSFORMING INSURANCE

New technologies are dramatically changing the landscape for insurance globally and bringing new developments for inclusive insurance as well. New data sources and analytical tools are changing risk models; machine learning applied to satellite and drone imagery is changing agriculture and disaster insurance; and identity verification and onboarding solutions are lowering the cost of operations while providing more convenient on-demand service.

USE OF TECHNOLOGY IN MICROINSURANCE PREMIUM AND CLAIMS PAYMENTS IN SUB-SAHARAN AFRICA



Source: World Map of Microinsurance, 2016

These innovations are helping the global industry transform from a passive risk transmission industry to an active risk mitigation and advisory partner for individuals, businesses, and governments. Some technologies will take time to mature and make a difference for inclusive insurance but others, such as mobile, are helping change the equation today.

Online and mobile channels are reducing distribution costs, while data technology is transforming the very nature of risk—the core element of the industry's business model—by enabling new ways to create, capture, and analyze information, thereby helping insurers better calculate and manage risk associated with new types of customers.

AN ENABLING REGULATORY ENVIRONMENT

Regulation is not the most significant barrier to inclusive insurance but regulators can ease the way by having favorable regulation that helps the industry experiment. The primary call to action has been to not overreach, and instead have proportionate regulation for inclusive insurance, commensurate with the nature, scale, and complexity of the risks involved. One particular concern is regulatory uncertainty, which could disincentivize investment.

WHAT INCLUSIVE INSURERS REGUEST FROM REGULATORS

GO PAPERLESS, INCLUDING:

- Allow payment with airtime and other means (in India and Indonesia using top-ups as currency is banned)
- Allow e-signatures with remote enrollment

MOVE FASTER, INCLUDING:

- Shorter filing times
- Promote test and learn approaches
- Do not restrict number of filings for new product approvals

KEEP THE PROCESS SIMPLE FOR THE CUSTOMER

- Allow auto-enrollment
- Reduce disclosure requirements
- Be flexibile in required claims documents

OPEN UP DISTRIBUTION

- Allow new aggregators, such as newly created associations, business supply chains, and retailers, to create group policies through a range of intermediaries
- Allow broad flexibility of possible distribution channels
- Move beyond the commission limits of traditional insurance

REINSURANCE

- Permit reinsurance across borders

REDUCE THE REGULATORY BURDEN

- Taxes on low premium volumes are not meaningful and are burdensome.

This brief describes some of the insights that have emerged from a wider research effort entitled *Inclusive Insurance: Closing the Protection Gap for Emerging Customers*. Led by the Center for Financial Inclusion at Accion (CFI) and the Institute of International Finance (IIF), with research by consultant Susy Cheston and generous support from MetLife Foundation, this research captures the insights from written submissions and in-depth interviews with 30 people across 22 institutions. The research shines a spotlight on the market opportunities and challenges associated with expanding coverage to these new customer segments and the efforts insurers and banks around the world are making to help them manage and mitigate financial risk. The full report will be released Q4 2017 and will be available on both CFI and IIF websites.

The Center for Financial Inclusion at Accion (CFI) is an action-oriented think tank that engages and challenges the industry to better serve, protect and empower clients. We develop insights, advocate on behalf of clients and collaborate with stakeholders to achieve a comprehensive vision for financial inclusion. We are dedicated to enabling 3 billion people who are left out of – or poorly served by – the financial sector to improve their lives.
For more information visit www.centerforfinancialinclusion.org

The Institute of International Finance is the global association of the financial industry, with close to 500 members from 70 countries. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. IIF members include commercial and investment banks, asset managers, insurance companies, sovereign wealth funds, hedge funds, central banks and development banks.
For more information visit www.iif.com.

This research was made possible by generous support from the MetLife Foundation.