

Private Sector Insurers and Microinsurance

Luis Huerta – Seguros Argos

Mary Yang – ILO

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Overview of Presentation

- Players in the microinsurance space
- Why is the micro-market interesting for private sector insurers and actuaries ?
- Microinsurance initiatives undertaken by private sector insurers
- Product type experience
- Closing thoughts

Microinsurance is...

“...a mechanism to protect poor people against risk (accident, illness, death in the family, natural disasters, etc.) in exchange for insurance premium payments tailored to their needs, income and level of risk. It is aimed primarily at the developing world’s low-income workers, especially those in the informal economy who tend to be underserved by mainstream commercial and social insurance schemes.”

~ *ILO, Microinsurance Innovation Facility (2008)*

“...not a specific product or product line. It is also not limited to a specific provider type. Microinsurance is the provision of cover to a specific market segment, i.e., **low-income persons.**”

~ *IAIS Issues Paper (2007)*

Micro vs. Conventional Insurance

Conventional Insurance	Microinsurance
<ul style="list-style-type: none"> • Complex policy document • Limited eligibility with standard exclusions • Regular premium payments as banking transaction • Usually minimum of 12 months • Screening requirements may include a medical examination • Small and large sums insured • Priced based on age/specific risk • Agents and brokers are primarily responsible for sales • Market is largely familiar with insurance 	<ul style="list-style-type: none"> • Simple, easy to understand policy document • Broadly inclusive, with few if any exclusions • Premiums accommodate irregular cash flows, paid in cash or with another financial transaction • Period of coverage can be as short as 4 months • Any screening requirements would be limited to a declaration of good health • Only small sums insured • Community or group pricing • Distribution channel may manage the customer relationship, premium collection, claims payment • Market is largely unfamiliar with insurance

Adapt to needs of microinsurance

Players in the microinsurance space

Front office

Retailers
Utility companies
Cell phones
Large employee groups
Service providers
Banks/MFIs
Cooperatives
Credit unions
NGOs

Back office

Large employee groups
Banks
Cooperatives
MFIs
NGOs

Risk carrier

Large employee groups
Banks
Cooperatives
MFIs
NGOs

Insurance companies

A few insurers providing microinsurance

LATIN AMERICA

- Alternative Insurance Co, Haiti
- La Positiva Seguros, Peru
- Seguros Argos, Mexico
- Colseguros, Columbia
- Zurich, Bolivia
- Guy Carpenter & Co (regional)

AFRICA

- L'Union des Assurances (UAB), Burkina Faso
- Cooperatives Insurance Company (CIC), Kenya
- Kenya Orient Insurance Ltd
- Hollard Insurance, South Africa
- Union des Mutuelles de Santé de Guinée Forestière (UMSGF), Guinea

ASIA

- ICICI Prudential, India
- Max NY Life, India
- TATA AIG, India
- SANASA, Sri Lanka
- Delta Life, Bangladesh
- Allianz, Indonesia
- PICC, China

To stimulate new ideas and test new approaches to provide better products

What is the potential?

- China: its 728 million rural residents and millions of migrant workers are largely under-served
- India: according to UNDP the market size is greater than 750 million worth USD 2 billion per year
- Indonesia, Brazil, Pakistan, Bangladesh, Nigeria and Russia all have population of more than 100 million that have limited access to insurance

In or out?

What are the challenges?

- Developing sustainable products that meet the needs of the market
- Reducing transactions costs (enhancing affordability)
- Creating an enabling regulatory environment
- Overcoming the market's natural resistance and educational barriers
- Building microinsurance infrastructure (e.g. actuaries, TA providers, data management systems)
- Distribution: getting products to the market
- Developing a microinsurance approach to claims



Profile: Hollard Insurance Group, S Africa

- Project: Voluntary property insurance for urban poor
- Innovation:
 - Sales through retailers, mobile phone air time vendors
 - Testing hand held terminals with GPS to assess and pay claims
 - Replacement materials instead of cash payouts
- Learning:
 - Demand for voluntary asset cover
 - How to use mobile phones to strengthen sales & claims
 - Client satisfaction with in-kind payments

Profile: ICICI Prudential Ins. Co, India

- Project: Term life insurance & savings for tea workers in Assam
- Innovation:
 - Partnership with tea estates
 - Software to reduce transaction costs and increase customer services
 - Product simplification & transparency
 - Education via NGO partner
- Learning:
 - Outreach potential
 - Ability to create savings & insurance culture
 - Build trust



Profile: Seguros Argos, Mexico

- Project: Mutuals of people from the low income population in Mexico
- Innovation:
 - The project aims to create 10 mutual insurance schemes offering term life insurance, targeting vulnerable people and implemented through organizations already working in the target areas. The schemes will send a doctor into the community to record the death and deliver the death certificate and provide a lawyer to help with administrative matters to ensure prompt payment of the covered amount.
- Learning:
 - What are advantages and disadvantages of a hybrid model combining commercial and mutual insurance? Can a top-down approach to develop mutuals work?
 - What is the efficiency of the delivery model? What are the best ways to administer claims and reinsure the scheme?
 - Does it provide a good value for clients?
 - Does this approach overcome distrust of local population insurers?



Microinsurance and Commercial Insurers in Mexico

Base of the Pyramid in Mexico

- Mexico has a total population of 105 million.
- Out of which 72.4 million individuals belong to the Base of the Pyramid classification.
- The income of the BOP population in Mexico is:

Annual Per Capita Income (Mex Cy.)	Population (in Millions)
30,000	9.7
25,000	13.2
20,000	17.3
15,000	16.9
10,000	12.4
5,000	2.8
Total	72.3



**Microinsurance
target market
57.1 million**

**Extreme
poverty**

Microinsurance Regulation Facts

- Creation of a Microinsurance Committee (September 2007).
- Microinsurance Bulletin 8.1 (January 2008)
- Microinsurance (limits):
 - P+C or Health Insurance: Maximum monthly premium of 1.5 of minimum wage. Annual premium of approximately \$1,000 pesos.
 - Personal Insurance:
 - **Individual**: maximum face amount equal to 4 times the annual minimum wage for the Federal District (approx. \$80,000 Mex Cy.).
 - **Group**: Maximum face amount for each member equal to 3 times the annual minimum wage for the Federal District (approx: \$60,000 Mex Cy.).



Microinsurance Characteristics

- Customized proposal, clear and simple wording.
- Unique processing: immediate and without risk selection
- Simplified mandatory clauses for consumer protection
- No intermediation required (agents, brokers)
- Sold through financial intermediaries such as Microfinance Institutions
- Other individuals or companies must receive the training programs offered by the insurance companies.

End Results

Innovation

- Modern means to combat poverty
- Does not generate additional processing or administrative and operating costs for the company

Approach

- Raising awareness about the need to have family protection
- Establishing a Financial Culture



New Achievement in the Omnibus Tax Bill

- Insurance companies will be able to pay claims through order checks without them bearing the legend “to be credited to the designated beneficiary’s account” for up to 48 times the general minimum wage (78,000 Pesos).
- Claims derived from Microinsurance products may be paid through wire transfers or transfers to Popular Savings and Loan Entities authorized to operate as such by the National Banking and Securities Commission (SOFIPOS).
- The foregoing was published in the 5th RESOLUTION OF AMENDMENTS TO THE OMNIBUS TAX BILL RESOLUTION FOR 2008 AND ANNEXES 1, 7, 11 and 15 THERETO, on March 31, 2009.

PRONAFIM-AMIS Life Microinsurance

- Cooperation Agreement between the Federal Government (Ministry of Economy, PRONAFIM) and the Private Sector (AMIS).
- Launched in Oaxaca on October 8, 2008.
- Launched in Veracruz on March 17, 2009.
- At present, we have over 7,000 customers as of March 2009 close.
- We have paid 3 claims.
- **PRODUCT:** Death from any cause of the named insured + spouse+ children for \$10,000 + payment of outstanding debt to the microfinance institution.
- Cost: \$2.50 pesos per week



PRONAFIM-AMIS Life Microinsurance

The Microinsurance Committee of the Mexican Association of Insurance Companies (AMIS) is represented by a group of 12 Insurance Companies:

- ACE
- AFIRME
- ARGOS
- ATLAS
- AZTECA
- GNP
- HIR
- INBURSA
- MAPFRE TEPEYAC
- METROPOLITANA
- TOKIO MARINE
- ZURICH

PRONAFIM-AMIS Life Microinsurance

Our Customers

- Forjadores de Negocios (DF)
- Negociando Juntas (Oaxaca)
- Despacho Alfonso Amador (Oaxaca)
- Producción Ecoturística de Colotepec (Huatulco)



Felipe Calderón
President of Mexico

Migrant Microinsurance Progress

- Program in cooperation with the Ministry of Foreign Affairs (SRE) and the Institute for Mexicans Abroad (IME) so as to offer Life Microinsurance to migrants in the US and Canada.
- Product: Death from any cause + repatriation
- The goal is to provide continuity to remittances by offering migrants working in the US and Canada a benefit for their families in Mexico.



Health Microinsurance Progress

- A simple indemnity insurance (payment upon occurrence of the event) that allows the insured to look up the disease in a straightforward table for claim payment purposes.
- Product: Indemnity in case of disability + indemnity in case of dread disease + hospitalization.
- Market research in order to determine the ideal product for the BOP population.



P+C Microinsurance Progress

- Indemnity insurance (payment upon occurrence of the event) without deductible or co-payments and having minimum requirements.
- Product: Comprehensive insurance providing coverage of home and work place against fire + earthquake + meteorological risks + theft.
- Market research in order to determine the ideal and specific product for the target population.



Product experience

Credit-linked
insurance

Savings-linked
insurance

Accumulating-
value insurance



Product experience

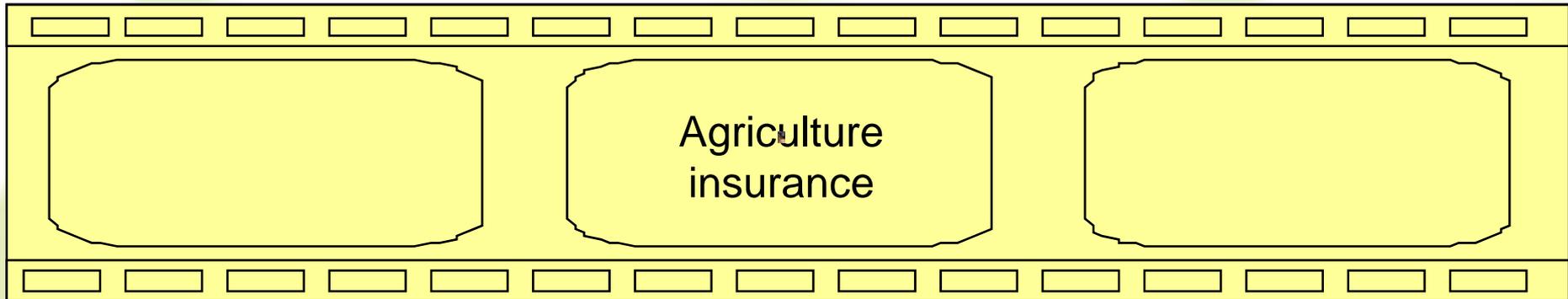
Property
insurance

Health insurance

Composite
products



Product experience



Innovation is the catalyst

Closing Thoughts

- The 'micro' market represents huge opportunities and challenges for insurers
- Microinsurance is not just regular insurance with smaller premiums and sums assured
- Successful products:
 - Overcome the wariness of customers
 - Adapt to the socio-economic situation of the poor
 - Create a new insurance mindset: help people manage risks
- Pivotal time for sector development:
 - Increasingly rapid expansion
 - Key stakeholders joining forces with more resources
 - Higher standards are expected (products, value)
- To capitalize on developments the sector must scale up, but:
 - Start small: Ensure product viability first
 - Build on lessons learned; apply rigorous and objective testing
 - Innovate to add more value to products

Innovation will drive development

Luis Huerta

lhuerta@segurosargos.com

Tel +52 55 1500 1611

www.segurosargos.com

Thank you!

Mary Yang

yang@ilo.org

Tel +41 22 799 6684

www.ilo.org/microinsurance