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Succeeding at microinsurance through differentiation, innovation and partnership

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Microinsurance defined

Microinsurance is typically defined in terms of the income of target customers, the limits on the amount of premium or the size of the benefit set by the local regulator, or a combination of these criteria. For example, the South African regulator views microinsurance as providing "a maximum benefit of R50,000 (US$6,400) per insured life, per insurer for any insurance related to a death event" while the Philippines Insurance Commission uses the condition that "the amount of premium does not exceed 10 percent of the current daily minimum wage rate for non-agricultural workers".

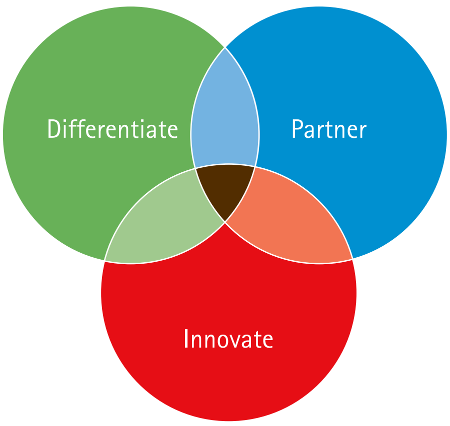
Microinsurance targets the population in the middle of "the base of the economic pyramid" or BOP. The extremely poor, living on less than two dollars a day, have too few assets and need humanitarian aid, while the wealthier, living on more than eight dollars a day, can often access traditional insurance products. This white paper does not address the situation of those living currently on less than two dollars a day. For this group, other more specific strategies might be needed, such as those developed by Esther Duflo and Abhijit V. Banerjee in their book titled "Poor Economics"[1].

This paper looks specifically at micro-insurance in the emerging markets of Asia, Latin America and Africa. Microinsurance is prevalent also in mature economies, although in a different form. Social security systems in most mature economies provide for their citizens' basic needs (e.g. healthcare, pensions, unemployment benefits), leaving insurers to offer products such as those for micro-entrepreneurs. Another reason for excluding developed markets from this analysis is that their higher levels of literacy and awareness of insurance, and their superior infrastructure and accessibility, imply that the operating models of microinsurers have to be more differentiated than those of insurers operating in the identified emerging markets.

Microinsurance takes off as carriers experiment with new business models

In a fairly short space of time, microinsurance has advanced from being something of an oddity in the insurance world to a very significant long-term business opportunity. Who would have thought customers earning a few dollars a day were worth courting, or that policies priced at 50 cents a month could be profitable? Today more than 30 international carriers are offering microinsurance products in various parts of the world, and many more are planning to get involved. While there is yet no widely accepted strategy, the common ingredients for success are differentiation, innovation and partnership.

Microinsurance



Microinsurance is a concept whose time has come.

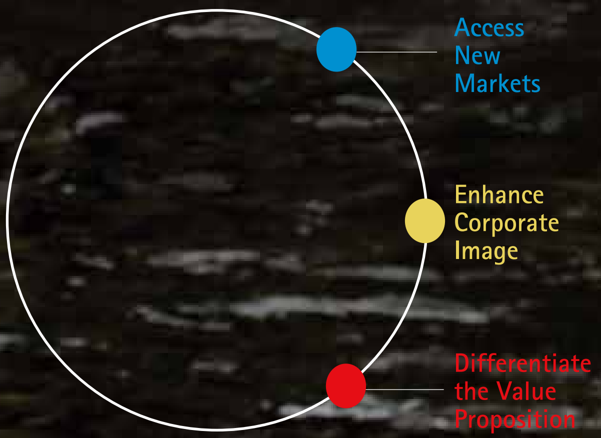
A diverse array of trends are combining to boost demand for risk protection among low-income consumers, businesspeople and farmers, and to encourage the development of suitable products and effective operating models. The most important of these trends is the growth of the economic segment or merely type of consumer who, while poor and unaccustomed to insurance, has an income and assets which need to be safeguarded. This is supported by robust growth in those countries which have the largest number of low-income citizens, as well as continuing urbanization—with all the risks which this entails for the individual.

On the supply side of the equation there is a growing convergence of the private, public and social sectors which is creating a fertile environment for the provision and distribution of microinsurance. Whereas before, insurance corporations operated largely in isolation of state agencies and non-governmental organizations (NGOs), today they are collaborating to an unprecedented degree to take maximum advantage of their respective capabilities and resources. Many governments have created incentives for private-sector organizations to develop insurance solutions for the previously uninsurable. Donor and community groups are cooperating by providing infrastructure, insights into customer needs, endorsement and other forms of assistance. The shared goal is to reduce inequality between the affluent and those who are most exposed to the risk of adverse events beyond their control, while easing the burden of social support which sits heavily on governments' shoulders.

Fortunately the increase in demand for insurance, and the emergence of a conducive environment, have coincided with insurers' turning their attention to developing markets. They have also become better equipped to play a role in this new sector. The rapid development of innovative products, distribution channels and enabling technologies—essential for competing in developed markets—is proving just as important in adapting to the needs of the microinsurance market.

Together, these trends are giving rise to what may prove to be the most significant development in insurance and its social acceptance in decades.

Figure 1. Microinsurance is an opportunity for insurers to establish new markets and enhance their reputation while contributing to development.



- Increase shareholder value by likely rapid growth in fast-growing emerging economies
- Tap collective spending power of low-income customers—tomorrow's premium cross-sell customers

- Contribute to local development and enhance the brand and company reputation
- Drive employee engagement
- Build trust with the government and citizens

- Differentiate products and services to increasingly savvy consumers—low-cost value proposition a competitive advantage
- Obtain operating license & comply with local regulations

Breaking new ground

The World Bank[2] estimates that there are between 4 and 5 billion* people who live on an income with a local buying power of less than US$8 a day. A little over half of these are so poor that they require aid and effectively fall outside of the commercial financial market. That leaves about 2.3 billion potential consumers of microinsurance services. To date 135 million, or five percent, have insured themselves, their property or their crops[3]. The potential market is estimated to be 3–4 billion policies generating between $30 and $50 billion in annual premium revenue[4]. Total demand is growing in excess of 10 percent a year, with premium increases outstripping those in the developed markets.

The popularity of products varies from country to country, depending on the risks which loom largest—earthquakes in Chile, drought in Kenya—but the global priorities are health insurance, followed by life protection (often linked to loans), agriculture/property, job loss and catastrophe insurance.

Microinsurers have had the most success in the Asia-Pacific region, where two-thirds of the poor are to be found. India and Bangladesh are the fastest-growing markets followed by China and the Philippines. On the other side of the globe Brazil, Mexico, Colombia and Peru are also experiencing strong growth. Africa and Eastern Europe have vast but mostly untapped potential.

The most salient difference between conventional insurance and microinsurance is the size of the premium and the insured amount. However this should not blind one to the fact that microinsurance is different in many other crucial respects. As a senior executive in a global insurance group, tasked with launching their microinsurance offering in Colombia, commented: "Forty years in insurance doesn't teach you anything about microinsurance!" For this reason it is often said that to succeed in this market, it is essential that insurers change their attitude and adopt an open mind to the particular needs and characteristics of the market.

Some of the more important differences which typify successful microinsurance offerings are:

- It accommodates a low level of familiarity with the concept of insurance, and perhaps even a degree of mistrust.
- It assumes that customers are generally poorly educated, even illiterate, and goes to pains to avoid misunderstandings.
- It is as simple as possible, both in concept and execution. Eligibility is defined broadly with only a few effective controls, and exclusions are kept to the minimum or eliminated altogether. Payment and claims processes are as convenient, fast and straightforward as the insurer can make them.
- Group pricing is more common than risk-adjusted pricing, due to the lack of personal data and the cost of individual underwriting. The ratio of price to cover is invariably higher.
- Premiums are often irregular, and linked to other payments such as loan repayments or product purchases.
- Distribution is more demanding yet less dependent on legacy structures, due to poorer communication and payment infrastructure serving this target market—which is often located far from urban areas. As a result, the variety of intermediaries is greater than in the case of conventional insurance.

Perhaps the most important difference, at this point in the evolution of microinsurance, is the notion that profit is hard to come by. A global research study conducted by the Microinsurance Network[5], involving 24 carriers that are actively marketing microinsurance products, found that 57 percent believe the business is profitable. All but one are convinced that profitability will be achieved within three years, and 29 of the 42 products which the respondents have in the market are already financed by premiums alone.

While this testifies to their financial sustainability, the insurers rank other benefits as more important than short-term financial profitability. Entry into new markets comes first, with 31 percent of mentions, while image improvement and brand recognition is next with 28 percent. Profits (24 percent) are followed by improved relations with regulators in new markets (14 percent) and the acquisition of new partners (10 percent).

Much of the difficulty of achieving profitability can be ascribed to the novelty of microinsurance—it is new to consumers, who mistrust and struggle to understand it, and it is new to insurers, who lack the knowledge of the market to underwrite it accurately as well as the infrastructure to sell and administer it efficiently. In time, all of these obstacles are likely to be mitigated, if not overcome. Customers will come to accept the concept of microinsurance and will recognize its value. Insurers will learn from their early mistakes, accumulate data, develop efficient distribution channels and build the geographically concentrated market bases that yield economies of scale. Experience and familiarity will almost certainly be the keys to profitability.

*The World Bank counts 4.9 billion people living on an income of less than $3,000 per year (i.e. $8.22 per day) while the International Finance Corporation estimates the number is 4 billion. There are a number of possible reasons for the variance; for example, the IFC's "The Next 4 Billion" considers only 110 countries[6].

The wide world of microinsurance

The opportunity for microinsurance, and the relevant business environment, varies greatly from country to country. Those offering the greatest immediate potential are:

Brazil

The base of the pyramid (BOP) is 75 percent of the population with $172bn in income*. Insurance covers 40-50m people, 30m of whom may be microinsurance customers. A regulatory framework is under way and mass-distribution models are well developed.

India

A bottom-heavy BOP, but spending is concentrated toward the middle of the spectrum. BOP income is $93bn. IRDA, the local regulator, is pushing insurers to cover rural areas. Microfinance is well developed.

Indonesia

A bottom-heavy BOP, but spending is concentrated toward the middle of the spectrum. Microinsurance has low penetration. State intervention/restrictions impede market development. Microinsurance pilots are under way. There is potential for takaful (Islamic) insurance.

China

The BOP in urban areas is top-heavy by income, while the rural population is weighted to the low end. The BOP income is $161bn. Microfinance/insurance is in its infancy. Regulatory restrictions impact competition and will impede market development in the short term.

Mexico

The BOP is 75 percent of the population. The aggregate income of $105bn is concentrated in the high/middle spectrums. Microinsurance is well developed. National associations for microfinance and insurance work in tandem.

The Philippines

The BOP in urban areas is small in numbers but top-heavy by income, while the largely rural BOP is weighted to the low end. Concessions are in place for microinsurance, providing the best framework. Companies are lobbying the government to exempt microinsurance from taxes.

South Africa

The BOP is 75 percent of the population with an income of $44bn. Spending is evenly distributed within the BOP. And enabling regulatory framework was proposed for microinsurance in July 2011.

Colombia

The BOP is top-heavy. Population and spend are distributed more toward the high/middle spectrums. Supportive regulations have encouraged competition and extended the reach of products.

Kenya

The BOP is geographically dispersed; relatively small areas with a high proportion of the BOP are not concentrated in any one region. There is a strong regulatory framework. Innovation and dynamism are already present in microfinance and upcoming in microinsurance.

Nigeria

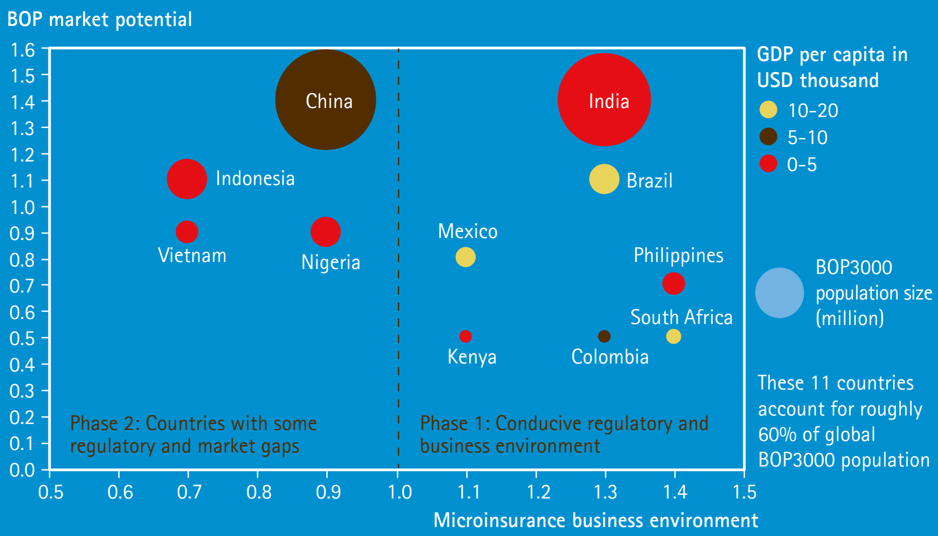
Most of the 140m people earning less than $3000 a year are concentrated in the lowest income segments, but economic growth should pull up the BOP. There is an established framework for microfinance banks. Insurance operators are urged to develop microinsurance, with existing policies under review.

Vietnam

There are 80m consumers earning less than $3000 a year. Income distribution is weighted to the urban poor rather than the rural poor. Regulatory restrictions and significant state intervention will impede competition and market development in the short term.

*All BOP income figures reflect local purchasing power.

Figure 2. Market size and trends. The choice of market will depend on the potential demand at the base of the economic pyramid (BOP) as well as the business environment.



Note: "Microinsurance Business Environment" is a combination of the Economist Intelligence Unit's Microfinance Business Environment score (2010) and Competition (the number of microinsurance providers present). The "BOP Market Potential" is a combination of the BOP3000 population (size and income distribution) and Microinsurance Penetration.

BOP3000 denotes the population living on an income of less than $3000 a year. Keeping a long term perspective on market potential, the BOP population living on less than $2 a day is included in the BOP3000 count, and the country score is adjusted for income distribution within BOP3000, i.e., bottom heavy, top heavy, or flat, depending on where spending is concentrated.

Sources: Accenture Research based on reports by the International Labor Organization, the Economist Intelligence Unit, The MicroInsurance Centre and HIS Global Insight, as well as PovcalNet, the on-line tool for poverty measurement created by the Development Research Group of the World Bank.

Good for society and good for business

It seems clear that microinsurance has the potential to provide insurers with meaningful benefits—if not immediately at a profit, then at least at a level of sustainability. Many global carriers, who are considering expansion into new markets, believe it is unnecessary to explore the poorly charted waters of microinsurance when there is more than enough potential in conventional products. Those who have embraced micro-insurance retort that—in addition to its own potential—it is proving to be a sound investment in the future of its more up-market products.

The global trend toward convergence economies[7] means that to be effective—or even to be admitted—insurers need to engage with government bodies, social enterprises, public donors, NGOs and foundations to assist in the development of the economy and the upliftment of its members. Multi-stakeholder alliances are being formed that capitalize on the respective strengths and assets of their member organizations, while taking cognizance of their respective objectives.

So insurers are recruited for their expertise, their infrastructure and processes, their administrative efficiency and controls, their technology and their financial resources. Within the context of public policy they are supported by government and developmental agencies to take their products to the people. Local partners—which may be local banks, microfinance institutions, retail groups or other organizations with broad reach and a deep understanding of their low-income customers—provide indispensable market insights, distribution networks and credibility at the local/community level.

Their delivery capability, and their ability to help manage the insurance brand, costs and customers, are more important than the business sector they represent and the products they sell. Together they form a hybrid business model that offers legitimacy, flexibility and sustainability—and even, in time, profitability.

Developing countries have implemented a wide variety of measures to encourage the introduction of microinsurance. This ranges from legislation, in India, setting prescribed shares of carriers' business that must be sourced from rural and low-income sectors, to public-private partnerships in Mexico, and supporting initiatives across Africa. At the very least, by helping their alliance partners achieve their socio-economic goals, insurers are earning the right to pursue theirs.

Partnerships are key, but weigh the pros and cons

Partnership is the essential platform of an effective microinsurance strategy, but as in any area of business, it is fraught with difficulties and needs to be carefully managed. Partners seldom have identical priorities and they are invariably burdened with different constraints, and this can threaten delivery and sustainability. To overcome them it is important to focus on the common objectives.

There are three main partnership models which insurers should consider:

Partner-agent

The most prevalent of models, this approach involves any of a range of micro-finance institutions, non-governmental organizations (NGOs), cooperatives and retailers. Typically, products are developed collaboratively, insurers bear the risk, and the partner distributes the products. The model takes advantage of the partner's existing infrastructure and the trust it has built up in the marketplace, which combine to reduce costs and accelerate speed to market. It also enables the attainment of scale through aggregation.

It does have its drawbacks though. The partner's sales staff usually lack experience in insurance as well as the capacity to take on the new products—these need to be addressed by means of a thorough due diligence exercise, training and the provision of systems and infrastructure on the part of the insurer. CIC in Kenya has engaged an agency to promote the sale of its Bima ya Jamii product by the staff of its partners—mostly microfinance institutions and credit cooperatives. It trains them in the product as well as the point-of-sale technologies (hand-held devices, biometrics and a digital pen), and provides customer education and support.

Another disadvantage is that, to the extent that the partner does succeed in selling the products, it gains ownership of the client interface and relationship. To overcome these, the partnership needs to be intensively managed. In particular, there must be close alignment of the interests of the partners and those of the target customers. The insurer also needs to provide ongoing marketing support such as advertising, and incentives for its partner's sales agents. Training is essential too, if the insurer's managers are make the most of the relationship with the new partners. This includes advising them of the different goals and method of functioning of what may be grassroots or public-sector organizations, and sensitizing them to a very different corporate culture.

Examples:

- Philippine Prudential Life, Malayan Insurance and Munich Re distribute their respective insurance products through CLIMBS, an association of 2,000 cooperatives with more than a million Filipino members.
- Alico Chartis has partnered with the gasNatural utility to sell its products to low-income consumers in Colombia.
- In South Africa, Hollard has partnered with the budget clothing retail chain Pep Stores to sell inexpensive funeral insurance. Customers buy the product off-the-shelf and pay their premiums in-store.

Public–private partnership

This model is used by governments as a short-term intervention to facilitate the establishment of microinsurance in their countries. By either subsidizing the premiums or underwriting the catastrophe risk, they allow their partners—insurance companies, micro-finance organizations or NGOs—to penetrate the market, establish their products and build a sustainable business model. This model also permits the sharing of data and experience, which would otherwise not happen.

It does, however, have a number of disadvantages, not the least of which is the survival of the business if and when the subsidy is withdrawn. The distortion implicit in the subsidization makes it difficult for the insurer to gauge the viability of its offerings when the support is removed. On the other hand, if the insurer makes too much profit, its reputation could suffer and its public-sector partner could be embarrassed. For this model to succeed, consumers need to accept the insurer's social contribution as authentic, and they need to believe upfront in the value of the product, whether underpinned by government or some alternative form of financing (e.g. peer-to-peer financing).

Examples:

- Munich Re and the German Gesellschaft für Internationale Zusammenarbeit (GIZ) have developed a weather-index microinsurance product for small farmers.
- Allianz has worked with the UN Development Program to carry out microinsurance demand studies in India, Indonesia and Laos.
- The Co-operative Insurance Company has a "basket" health and life product called Bima ya Jamii. The health cover is underwritten by the Kenyan government's National Health Insurance Fund.

Direct

This model, in which insurers develop and distribute microinsurance products on their own, is the least prevalent of the three primary strategies. While it allows greater control over the outcome of the initiative, and gives the insurer ownership of its customers, it does entail greater distribution and administration costs. To succeed, the insurer needs rapidly to acquire an understanding of its target market—the local community dynamics at grassroots level—and of microinsurance itself. It also needs to address the challenge of scalability, and to develop low-cost, scalable systems for its front and back offices.

Challenges can be overcome, with a little help from one's friends

As mentioned earlier, the first challenge facing insurers who have decided to enter the microinsurance market is to open their mind and prepare themselves for an entirely new business paradigm. The willingness to question past experience, and the recognition that many of the assets and attributes that have contributed to their success may be irrelevant or even an impediment in this new context, are uncomfortable but necessary steps. A big help, in this regard, is partnering with local organizations that are familiar with the environment and have experience working with customers at "the base of the pyramid". This leads the carrier to consider the market through a different prism than its own.

In developing an effective microinsurance business model, insurers need to get to grips with a daunting array of challenges which fit into three broad categories:

Heterogeneity

The diversity of potential customers is significantly greater than insurers typically encounter in more mature markets. This is true not only between different countries but also within them. This raises the risk that products fail to meet the needs of customers, and makes it unlikely that a successful model can be replicated in a new market with the same positive results.

Accessibility

Microinsurers have to deal with high distribution and acquisition costs due to the inaccessibility of potential customers. Penetrating the rural market involves obvious obstacles, but reaching urban customers is often not much easier due to the lack of infrastructure. In both cases illiteracy, the shortage of facilitating services and capacity gaps impede acquisition and contribute to attrition.

Affordability

In the absence of comprehensive customer data, and faced with issues such as adverse selection, moral hazard and covariant risk, insurers cannot underwrite microinsurance with their customary rigor. And even though most microinsurance policies have a higher premium—cover ratio than is the case with conventional policies, they seldom meet the full cost of the cover. To break even, high and geographically concentrated volumes are required. This in turn makes it essential that an efficient operating model is employed.

The operating model: key to success

The obstacles which confront the insurer that seeks to develop and market a successful microinsurance product are numerous and daunting. The solutions to all of these challenges will be bundled into an effective operating model—which will look unlike any model the insurer has developed before.

It will include the participation of an unlikely group of local partners, selected for capabilities or assets which may have nothing to do with insurance. It will feature differentiated products which have been specially customized to meet the needs and expectations of local customers who have modest means and scant experience (if not mistrust) of insurance. It will comprise innovative distribution, financing and partnering mechanisms, and will be geared for scalability as the offering proves itself. And it will be structured to comply with local regulations and government incentives while simultaneously pursuing financial sustainability if not profitability.

There are four key areas where the effectiveness of the operating model will be tested:

Product development

In order to develop products which appeal to customers with scant experience of insurance and limited affordability, insurers need to work closely with partners in the public and/or private sector who have a deep "grassroots" understanding of their constituents. Demand studies and pilot projects will test the feasibility of the concept and ensure that all relevant practical and cultural factors are considered. This knowledge can then be merged with insurers' experience with more traditional products to produce offerings that are simple, cheap and easy to buy. As the product takes off and more data becomes available, analytics can be used for predictive modelling that points the way to product modifications and other changes to the operating model.

Marketing & distribution

The insurer's partners play a vital role in establishing trust and credibility, especially when they have their own, established distribution network. This network can be leveraged to communicate with and educate prospects, and to bundle the microinsurance product with the partner's products (e.g., short-term credit). Marketing and distribution is more about bundled sales and less about direct sales. Sales are maximized when the product, terms (such as exclusions) and supporting documentation are as simple as possible, so that both the agent and the prospect understand them properly. The effectiveness of a shared distribution network is further enhanced when the organization architecture and infrastructure are localized, with centralized processing and technology support.

Claims & administration

As with all insurance, the credibility of microinsurance depends on the settlement of the claim. This is a particular challenge for insurers, given the difficulty of screening prospects, accommodating pre-existing conditions and evaluating individual loss. However, by combining the perceived professionalism of the corporation and the trust of the local agent, insurers can achieve the essential consistency between the sales message and the claims outcome. Administration should have the flexibility to accommodate provisions such as "pay when you can", and should be locally organized with centralized processing and support. Outsourcing the back-office, in addition to front-office distribution, can go a long way in better managing costs and service levels.

Risk & regulation

The essence of profitable underwriting is understanding the risk. The novelty of microinsurance, the absence of data, and most insurers' unfamiliarity with the circumstances of their potential customers, make it very difficult to evaluate the risks that are being covered. These obstacles can be mitigated in a number of ways: by collaborating with partners to conduct research that approximates a community's risk; by pooling risk across multiple markets and regions; by offering short-term products that limit exposure; by partnering with the public sector to share losses which exceed an agreed amount; by sharing data and expertise among insurers; and by utilizing analytics to make the most of the information that is available.

Technological innovation: a potential game-changer

One of the most powerful trends impacting insurance at this time is the rapid emergence of new technologies.

When it comes to microinsurance, innovation is more than a response to customer demand for more convenient ways to interact—it is usually an operational imperative. Geographic isolation, the lack of infrastructure, illiteracy and other factors force insurers to develop new tools and to combine them in novel ways with existing systems and devices, all with the aim of offering a simple product at a low price.

Anyone who is familiar with the rapid adoption of mobile telephones in emerging markets will accept that even the most sophisticated technology can have a powerful impact in regions characterized by indigent consumers and poor infrastructure. However, adoption can be inhibited by factors such as:

- The reluctance of insurance agents and their customers to use new technology;
- The inability of distribution partners to afford the technology, combined with the high cost of information systems capable of dealing with large volumes of small-value transactions;
- The lack of communications and power systems needed to ensure connectivity;
- A regulatory and policy environment that could impede the implementation of new technology.

There are three key areas where technology can be decisive in facilitating the uptake and profitability of microinsurance:

Mobility

The provision of point-of-sale technology—in the form of biometric smart cards, handheld devices (such as smart phones), solar-powered deposit machines, digital pen etc., in addition to mobile telephones and voice technology—can be a game changer.

Examples:

- Old Mutual offers Pay-When-You-Can funeral insurance to South African customers who buy their registration packs at Shoprite retail outlets and then text the unique 16-digit code to the carrier to confirm their coverage.
- Tata-AIG and ICICI-Lombard use vans to roam the rural areas of India, educating consumers by showing videos that explain the benefits and workings of microinsurance.
- UAP Insurance in Kenya enables farmers to buy crop insurance by using their mobile phone to send in a photograph of the barcode on a bag of fertilizer or seed, and to pay premiums using the M-Pesa mobile banking system.

Real-time connectivity

The seamless integration of insurers' technology systems with those of its agents and partners is crucial to enable the bulk processing and servicing of low-premium policies with minimal manual intervention and at the lowest possible cost. The ILO[8] in 2008 found that transactional systems that streamline processes such as customer registration, claims management and the efficient flow of information are particularly important to microinsurers. Without them, it said, the automation of user interfaces, and the addition of knowledge management, product design and business intelligence, will simply add costs without improving services to customers.

Examples:

- Aviva has implemented straight-through processing that allows it to issue a policy within 24 hours of the application data being entered at any of its Indian microfinance partner Basix's 220 branches.
- Also in India, IFMR Trust Holdings and HDFC Ergo GIC use radio-frequency identification (RFID) tags on insured cattle to minimize claims fraud.
- Mapfre Seguros' partnership with Casas Bahia, a Brazilian retailer, and Vivo, a telecommunications provider, relies heavily on the advanced IT platforms used by both of its partners to easily monitor, in real time, its insurance sales through these channels.

Flexibility and scalability

Pay-as-you-go insurance platforms in the cloud (using software-as-a-service/platform-as-a-service) are an important component of an efficient, adaptable and extendable microinsurance operating model. The ILO[8] reports that the high-end systems deployed in microinsurance today are SaaS platforms. While the investment required for these platforms tends to be greater, the ILO's technology amortization model shows that the benefit-cost ratio is higher since the cost per customer decreases as their numbers increase.

Examples:

- IFFCO-Tokio's agents, working in remote areas, use digital pens to quickly convert their handwritten notes into formal policy applications. The pen data is transferred via GPRS or Bluetooth to the company's web-based SaaS platform for processing.
- Max India and its partner New York Life Insurance have extended their virtual network throughout India by distributing scratch cards through small retailers. Customers pay their premiums by buying a card and texting the concealed code to the insurer.
- For ICICI Lombard's partnership with FINO under India's National Health Insurance Scheme, the technology platform had to be flexible to work in tandem with all other systems. This standardization challenge was met through the creation of a platform for card design; a back-end database management system; and a data maintenance format which enabled the interoperability of smart cards across the network of scheme-approved hospitals[9].

Product strategy is rooted in customized solutions

One of the biggest challenges facing microinsurers is the design and development of products which meet the needs of customers who have limited affordability, experience with insurance and access to infrastructure, and which simultaneously meet the carrier's operational and cost requirements. While simpler products are generally easier to market and administer, they also provide more limited benefits to the customer. Trade-offs are inevitable, and innovation can be invaluable in achieving differentiation and overcoming the obstacles that are common in this sector of the market.

Low needs met/high ease of design

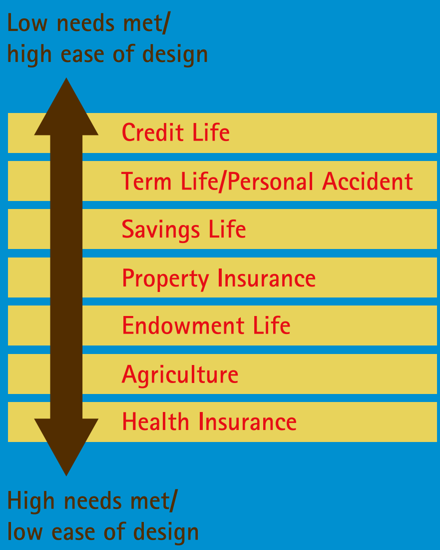
Credit life, or loan protection, is the world's largest selling microinsurance product. Originally created to meet the needs of microfinance institutions rather than their low-income customers, it is bundled as a compulsory supplement to a loan. In the event of the borrower's death or some other calamity the loan is written off.

Credit life is profitable and reasonably easy to execute, but as the product line matures it becomes commoditized and margins are compressed. This can be countered with innovation: structuring the product in different ways, or bundling it with niche products such as takaful or those which generate greater margins. In the case of property insurance, the needs of the community can be better met by focusing on events with low probability and high cost-impact—those which would force households to sell their productive assets. This would reduce the cost of administering large numbers of small claims.

High needs met/low ease of design

Health, agriculture and life insurance are the most effective in meeting the needs of low-income people; however, as they require significant managerial and actuarial capabilities, they are a lot more difficult to implement. Among the innovative solutions which are available to insurers are index-based insurance (where settlement is triggered not by a claim but by an event which conforms to a predetermined metric such as a specific flood level), grants from governments and/or donors to develop infrastructure, partnering with weather stations to collect meteorological data, risk-spreading to multinational insurers and reinsurers, and technology to manage fraud.

Figure 3. Microinsurance products can be plotted on a usefulness/complexity spectrum.



Source: Adapted from Churchill 2006 and the World Bank's Social Funds Innovations Notes 2008

Worldwide implementation of health microinsurance—MicroEnsure paves the way with Accenture

MicroEnsure is the world's first insurance intermediary dedicated to serving poor communities throughout the developing world with an affordable and appropriate range of insurance products. Its role is to provide an efficient back office to complement the front-office and risk-carrier responsibilities of its public- and private-sector partners.

MicroEnsure sought Accenture Development Partnerships' help to deliver an innovative health microinsurance product for lower-income communities in Tanzania. ADP's primary focus included core project management support, establishing a monitoring and evaluation strategy and framework, designing the operating model and organization, and defining the financial process. It also helped MicroEnsure establish a third-party administrator and a new management information system. This paved the way for the initial roll-out, and is providing the structure for a future global roll-out.

PharmAccess rolls out health insurance in Africa—with help from Accenture

The Health Insurance Fund (HIF), an initiative of the non-governmental organization PharmAccess Foundation (PharmAccess), is supported by a grant from the Dutch Ministry of Foreign Affairs and other donors including USAID and the World Bank. As the implementing organization for the HIF, PharmAcces partners with local private organizations in a number of African countries to make health insurance schemes accessible to low-income consumers. In Nigeria, PharmAccess partners with the Hygeia Community Health Plan, and in Kenya it works with the local insurance company AAR.

Accenture Development Partnerships (ADP) has been helping PharmAccess with the strategy and implementation of the HIF schemes. This includes defining the overall framework for the delivery of a health microinsurance product, developing the information management strategy, and detailing best practices for developmental and operational processes.

In addition, ADP has supported the management of two health insurance schemes: one in Kenya and another in Tanzania. This has involved engaging with local partners required to operate a scheme; defining technologies such as enrollment software, administrative systems and premium collection systems; enabling providers to participate in the scheme; and defining key insurance components such as benefits packages, eligibility rules, costs and payment strategies.

What traditional insurers can learn from microinsurance

The experiences of insurers that have developed innovative new business models to launch and establish microinsurance products can have powerful benefits for traditional carriers. The necessity for variable costs and low margins, and efficient distribution and administration, have proved to be the mother of invention—insurers have been forced to innovate throughout the value chain. Creating lean operations, developing effective relationships with often unlikely partners, inventing solutions for customer needs with a completely fresh perspective, and exploiting technology to the hilt are just some of the examples.

- Partnerships in microinsurance are agnostic of the organization type, whether these are microfinance institutions, non-governmental organizations, retailers, telecommunications providers or the public sector at large. In learning to manage these very different partners, carriers have had to adopt new governance and leadership styles, and become more accepting of different corporate cultures.
- In their quest to understand the microinsurance customer, carriers are gaining cross-cultural understanding and insights that are proving invaluable as they launch their more conventional products into the mainstream of these fast-growing emerging markets.
- In the process of deploying technology in the field, insurers can learn how to direct the mainstream customer and sales force toward lower-cost digital channels, and how to overcome the adoption barriers and challenges that confronted them in microinsurance.
- As mainstream insurers today scout for new opportunities to grow revenue and reduce costs, the experiments of microinsurers can stimulate ideas for new business models based on differentiation, innovation and partnerships.

Building a bright future, step by step

Microinsurance has become increasingly popular in the last five years as providers have learnt more about their markets and improved their product offerings, process efficiencies and responsiveness. Clearly, there are still challenges to overcome, and risk pooling and efficiency breakthroughs yet to be realized. These are necessary if sound microinsurance products are to made available to vast numbers of people.

Profitability is linked with scalability—microinsurance can be self-sustaining if delivered at scale in geographically concentrated volumes. But not all large insurance schemes have proved profitable. Scale is an important lever of success, provided that the operating model is both relevant and robust.

Microinsurance has reached an interesting juncture. It is still largely within the realm of public policy, with governments in most emerging countries throwing weight behind its expansion. At the same time, a significant number of insurance carriers have entered the market and are proclaiming its profitability—if not right now, then soon. At the very least, they can depend on the support of the public sector and development agencies in making the business self-sustaining.

For the present, insurers who are contemplating entering the market should evaluate more than only the profit potential of microinsurance. It offers the opportunity to position the carrier as a socially responsible organization which is committed to local development. This allows it to build trust and relationships within governments and community bodies, and to have a say in the development of an enabling environment.

Microinsurance can also be an entry strategy for a broader, more profitable range of insurance products. The experience gained in the process of becoming familiar with the various market segments, developing suitable microinsurance products, and establishing effective distribution channels and partnerships, can be invaluable when it comes to launching conventional insurance products. In addition, success in establishing a brand at "the base of the pyramid" can have significant long-term benefits. The World Bank estimates that in the past decade no fewer than 500 million people left the ranks of the poor and joined what is known as the "new middle class" in the mainstream of consumer society.

In fast-growing economies today's low-income customers may soon become tomorrow's premium prospects. And products like microinsurance, which seem at first glance to offer modest financial returns, may in the long run prove to be important contributors within the carrier's broad portfolio. The future of insurance, particularly in emerging markets, is closely linked with the future of microinsurance.

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Accenture Development Partnerships is a group within Accenture designed to operate on a not-for-profit basis to channel Accenture's strategic business, technology and project management expertise to non-profit organizations, NGOs, foundation and donor organizations operating in the development sector—helping these organizations achieve their social and economic development goals. The group started as a corporate social enterprise in 2003 and has completed over 350 projects for 74 non-profit clients, working across 64 countries, and deploying more than 750 Accenture employees. Accenture Development Partnership's home page is www.accenture.com/adp.

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