Welcome! We will begin shortly…

EXPERT FORUM
Locked down? Business interruption insurance, low-income MSMEs and COVID-19
Thursday, 16 April - 4pm CEST
Today’s **Expert Forum** is scheduled to last **1 hour** including Q&A

To ensure the highest quality of experience, **participants will be muted**

**QUESTIONS** can be submitted via the Q & A feature => selection chosen

- “**Raise Hand**” icon to speak
- “**Lower Hand**” and mute after

- **Slides** and a **recording** of this presentation will be **circulated later**
  We will also aim to address any **questions left unanswered** via email

- Message the MiN Executive Team via **CHAT** for any issues
EXPERT FORUM: Locked down? Business interruption insurance, low-income MSMEs & COVID-19

Speakers

Siani Malama
Head of Business Development, Marketing and Micro Insurance
Hollard
Zambia

Carlos Boelsterli
CEO
Microinsurance Catastrophe Risk Organisation (MiCRO)
United States

Moderator:
Katharine Pulvermacher
Executive Director
Microinsurance Network
Luxembourg

www.microinsurancenetwork.org
• Business interruption (BI) insurance is designed to protect the insured for losses of business income it sustains as a result of direct loss, damage, or destruction to insured property by a covered peril.

• It covers the actual loss of business income sustained due to the necessary suspension of “operations” during the period of “restoration.”

• The suspension must be caused by the direct physical loss, damage, or destruction to property. The loss or damage must be caused by or result from a covered cause of loss.

• Some insurers are now offering BI insurance for cyber-risk and disruption due to digital supply chains or civil unrest.

• Usually, BI insurance is offered as an optional extra within buildings and contents insurance policies.

### ACTUAL LOSS

Business income coverage covers the actual loss sustained by the insured as a result of direct physical loss or damage to the insured’s property by a peril not otherwise excluded from the policy.

The insurer is only obligated to pay if the insured actually sustained an interruption of business leading to a business income loss. If the insured does sustain a business income loss, the extent of the insurer’s obligation is limited to the dollar amount of loss actually sustained, but not to exceed the applicable policy limit.

### BUSINESS INCOME

Usually, the carrier is liable for the reduction in net income that results from suspension of operations—whether wholly or partially—due to a physical loss at the insured’s premises. This following commonly used definition of business income is intended to clarify what sums can be included when calculating the amount of loss.

Business income includes the net income (net profit or loss before income taxes) that would have been earned or incurred by the insured and the continuing normal operating expenses incurred, including payroll.

### PERIOD OF RESTORATION

Insurers are liable for the loss of business income only during the period of restoration, which is often defined as the length of time required to rebuild, repair, or replace the damaged or destroyed property.

The period of restoration begins when the physical loss or damage occurs; it ends when the property should, with reasonable speed, be repaired or replaced.
A poll of 500 American SMEs in 2015, sponsored by Nationwide, revealed that two out of three had no business interruption insurance. More than half of the respondents said it would take them at least three months to recover from a disaster.

*Insurance Journal, 2 September 2015*

In its 2016/17 survey, the British Chartered Institute of Loss Adjusters found that 44pc of business interruption (BI) policies had inadequate sums insured, with the average shortfall a sizeable 44pc.

*The Telegraph, 4 January 2018*

The evidence suggests that, even in large economies with well-established insurance sectors, SMEs are highly exposed to business interruption risk under normal circumstances.
What about MSMEs in the South?

Whether formal or informal, MSMEs play a crucial role ....

... but access to insurance is minimal

Source: OECD Library
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Siani Malama
Head of Business Development, Marketing and Micro Insurance
Hollard
Zambia
Hollard Insurance Zambia

Bridging the GAP!
Inclusive Insurance for MSME’s
MIN Webinar
16th April, 2020

Siani Malama
Inclusive insurance can be defined as “access to and use of appropriate and affordable insurance products for the unserved and underserved, with a particular emphasis on vulnerable and low-income populations”.
Landscape assessment
High proportion of “emerging” consumers

- Zambia is a low income country with a population of ~ 17 million people
- 35%² of Zambians are low or middle-income (USD 2 – 20 per day). They are hereon referred to as emerging consumers
- Digital capabilities are seeing an increasing trend³
- Financial inclusion is on an upward trend-increasing to 59.3% in 2015 from 37.3% in 2009⁴

Sources & Footnotes:
1. [https://microinsurancenetwork.org/sites/default/files/11378_Zambia_LR.pdf](https://microinsurancenetwork.org/sites/default/files/11378_Zambia_LR.pdf)
3. FSDZ and Hollard Insurance Design Sprint
4. Financially included – Individuals 16 years or over who have/use financial services from formal and informal financial service providers (FinScope Zambia 2015)
# Landscape assessment

“Emerging consumer” segment largely underserved by formal market

<table>
<thead>
<tr>
<th>Tool</th>
<th>Provider</th>
<th>Self</th>
<th>Friends and family</th>
<th>Informal financial service providers</th>
<th>Formal financial service providers</th>
</tr>
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<tbody>
<tr>
<td>Savings</td>
<td>Home savings</td>
<td>One family member holds money for another</td>
<td>Savings group</td>
<td>Bank account or mobile money wallet (~14% adults have used)²</td>
<td></td>
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<tr>
<td>Loans</td>
<td>n/a</td>
<td>No-interest loan from a friend</td>
<td>Loan from a money lender</td>
<td>Installment loan (~6.5% adults have used)²</td>
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<tr>
<td>Insurance</td>
<td>Self-insurance through savings</td>
<td>Cash gift from a family member to cover an emergency</td>
<td>Burial fund</td>
<td>Life insurance (~3% adults have used)²</td>
<td></td>
</tr>
<tr>
<td>Transfers (remittances or payments)</td>
<td>n/a</td>
<td>Cash gift</td>
<td>Money transfer through a local bus company</td>
<td>Mobile money transfer (~3% adults have used)²</td>
<td></td>
</tr>
</tbody>
</table>

57% of all households use their savings when faced with a crisis

NO strong informal insurance sector

<3% insurance penetration³

Sources & Footnotes:
3. Insurance penetration is calculated as ratio of total insurance premiums to gross domestic product
Landscape assessment
Underserved market exacerbated by high % of workers in informal segment

- Less than **15%** of the labor force is employed formally\(^1\)
- Majority employed in agriculture and MSMEs
- Copper mining dominates contribution to GDP followed by agriculture and informal trading
- Informal segment is largely **un-insured**

Sources –
MSMEs: Most vulnerable and un-tapped sector

- The MSME sector is evolving in Zambia with approx **1.2 million micro** enterprises
- These firms constitute the bulk of **private sector employment** in Zambia, employing **approx 70 %** of total labor*
- Less than **1%** of micro business owners have insurance*
- Awareness of insurance for business or personal related cover is very low at less than **25%**, based on Hollard research
- **45%** of 900 enterprises participating in our study cited having risks that are insurable
- Potential MSME market size in GWP is estimated at **$15m - $20m**

Zambian Micro Entrepreneur persona

Persona business fast facts

**Sector:** Owns a small physical shop likely in one of the following sectors: retail (grocery, clothing, etc.), wholesale fast moving consumer goods, construction (selling bricks, cement blocks), food services (restaurant, food stand etc.)

**Occupation:** Small business owner, likely has more than one business with 1-5 paid employees between **all businesses**

**Income:** Earns between approx. $350 and $1200 per month **total** from **all businesses**

**Business asset value:** Under $3500 (mainly stocks – FMCG)
Some of key financial and business challenges faced by MSME’s

“The Problem”

- Delayed payments from customers, affecting cash flows
- Insufficient working capital
- Security – Lack of business continuity strategies
- Fluctuating exchange rate
- High operational cost
- Expensive and inadequate informal risk management coping mechanisms
- Lack of access to affordable finance
- Operating out of necessity (especially micro entrepreneurs)
- Business value chain risks
- Loss of income – Business closures, death, fire, directive from government during outbreaks
WHY VOLUNTARY INSURANCE?

WHAT IS VOLUNTARY INSURANCE?

Typical Product Development Approach

DESIGNING FOR VALUE

Insurance coverage provided in return for a premium paid by a consumer of our partner

1. Assess what core products/services the Digital Wallet offers and key customer segments
2. Identify the payment channels available via partner, including, but not limited to the Digital Wallet
3. Identify other key distribution opportunities via partner

The premiums paid via Digital Wallet customers can be either direct (e.g. paying from account/mobile money) or indirect (i.e. bundled into the cost of other services)

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Financial assistance following fire + storm damage to business property, or directive temp closure payout

Customer’s perspective
• Protection against financial setbacks and risk
• Ability to access various cover levels and to protect several family members

ALIGNMENT WITH CUSTOMER VALUES

EXAMPLE OF PRODUCT IN DESIGN

Property assistance cover + Business interruption cover

Value of damaged assets

Max: $500

Payout

# of weeks

Payout

$50

$75

$100

$125

Property assistance cover

Business interruption cover

DESIGNING FOR VALUE

Typical Product Development Approach

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Bringing it all together
From pilot to sustainability

Customer segments
- Micro entrepreneurs
- Subsistence farmers
- Low income HHs
+ Small enterprises
+Mass segment HHs
+Medium enterprises

Product categories
- Personal & Business risk bundles
- Crop insurance
- Life & Funeral
+ Bundles if allowed by new regulations
+ To be decided based on continuous innovation & human centered research

Distribution channels
- MFIs, Banks
- Co-operatives
- Retail stores
M N O
+Watch out for churches, affinity groups & other upcoming channels
+Find the next innovation

+ sign indicates exploring new segment/category/channel in addition to scaling those previously established
Pilot testing & monitoring framework

1. Compose team
2. Develop protocol
3. Define objectives
4. Prepare systems
5. Model financial projections
6. Document processes
7. Develop marketing
8. Train staff
9. Begin pilot test
10. Evaluate test

TO ROLL-OUT

ADJUSTMENTS

DISCONTINUE
How we will achieve this and build MSME resilience?

Thinking strategically to achieve our ambition

**CUSTOMER segments**
- 2 billion globally informal sector
- 1.2 million in Zambia

**PRODUCT categories**
- Design for customer value
- Quick access to funds for MSME’s

**DISTRIBUTION channels**
- Leverage technology to reduce cost, reach scale
- Robust process, fast, efficient claims payouts, customer experience

“Workers and businesses are facing catastrophe, in both developed and developing economies... We have to move fast, decisively, and together. The right, urgent, measures, could make the difference between survival and collapse.”

Guy Ryder, ILO’s Director-General
thank you
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Carlos Boelsterli
CEO
Microinsurance Catastrophe Risk Organisation (MiCRO)
United States
MiCRO was created after the 2010 Haiti earthquake to sustainably strengthen the resilience against natural disasters of the underserved, by designing and implementing appealing, affordable and accessible insurance.
Our solutions

Cover the productive activity against natural hazards such as drought, excess of rain and earthquake.

Are index-based, a calculation platform remotely detects and informs about triggering events.

Cover indirect losses, such as income decrease, or expense increase after a disaster.

Trigger variable payouts depending on the severity of the event.
How it works

Index using remote earth observation

Disaster occurs

Calculation platform detects and informs

Insurer identifies clients and pays

Client is informed (via SMS)

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<th>Pago</th>
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</table>
Direct vs. Indirect losses

**Natural hazards**
- Earthquake
- Drought
- Excess of rainfall

**Can cause direct and/or indirect losses**

**Direct losses**
- Housing
- Crops
- Etc.

**Indirect losses**
- Increase in expenses
- Reduction of income
- Etc.

**Protection options**

a. **Traditional insurance**
   Pay-outs assessed by loss adjustment

b. **Index-based insurance**
   Pay-outs determined by index deviation
Advantages

- No exclusions
- No need to file a claim
- No paperwork
- No deductibles
- No risk inspection
- No loss adjustment
- No moral hazard
- Agile payouts
- Expands insurability boundaries
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1. Can you estimate what the premium would likely be under normal circumstances to insure that level of business income (US$1,200 monthly)? And stock?
2. Assuming workers could be insured against business interruption for the monthly minimum wage (US$89.50) what would the premium for that cover be? How would you, as an insurer, approach pricing such insurance?
How much would income protection cost?

Monthly wage, low-skilled workers (individuals, US dollars)

Source: Wage Indicator Foundation
3. Less wealthy countries are unlikely to be in a position to provide income support using social security mechanisms. How could insurers step in – is it even feasible for private sector insurers to carry this type of risk?
Connect. Participate. Influence

Microinsurance Network

The global multi-stakeholder platform for microinsurance experts to work together.

Over 60 institutional members in more than 50 countries

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