1. Introduction

The COVID-19 pandemic hit the world by surprise, and has taken its toll on individuals, businesses, and the wider economy across the entire globe. And while the world economy has been severely disrupted, microinsurance clients have been hit particularly hard by the global crisis. Insurers face tremendous challenges as they work out how to buffer the future of billions of low-income households and small businesses against this new shock. At the same time, insurers face a related impact on operational costs, which have increased due to crisis management measures even as premiums collected for many businesses’ lines shrink.

We recently surveyed our members to evaluate the global impact and implications of COVID-19 on the business case for microinsurance, learn about insurers’ immediate responses to the pandemic and the challenges and pressure they are facing, and whether the crisis has also created new opportunities in the medium and long terms.

The survey was designed to assess the current situation and inspire a wider debate on how to manage the crisis and the systemic fault lines it has exposed, and how to manage these emerging risks through inclusive insurance products that provide better futureproofing for low and lower-middle income consumers and MSMEs.

Key take-aways

Negative impacts

- A significant reduction in activity
- Delays to partnerships and new agreements
- Increased reputational risk

Positive impacts

- Opportunities to ramp up digitalisation
- Strengthening of solidarity
- Catalysis for innovation and building resilience

2. Framing the COVID-19 crisis

Focus on the business case for Microinsurance

Most low-income households do not have insurance. They desperately lack formal risk

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1 Micro, small, and medium enterprises
management measures and social protection mechanisms to cope with potential risks and respond to unforeseeable disasters. For micro, small, and medium enterprises, recovering the losses incurred due to financial hiccups – or worse – is at best difficult, and more often proves fatal.

Inevitably, this segment of the population is woefully ill-prepared to face and respond to a global pandemic. COVID-19 has had a significant impact on the entire insurance sector, but particularly on microinsurance. Since the capital at risk with respect to low-income clients is lower, insurers servicing this consumer segment should offer bundled products designed to meet the needs of this population, satisfying insurers’ desire to be responsible corporate citizens.

The crisis has undoubtedly created an opportunity to increase awareness that insurers could and should leverage to ensure that ordinary people realise how they could be better protected against such shocks. The pandemic has also been a wake-up call: the demand for products to protect emerging consumers from income loss – quite apart from access to adequate healthcare – has probably never been higher. At the same time, digitalisation of processes has certainly received a boost, accelerating a trend that was already underway to enhance efficiency gains and service delivery – and which has now become crucial for business survival.2

3. Scope of the survey

The survey covered reinsurers, insurance companies, research and academic institutions, rating agencies, actuarial services providers, intermediary distribution channels, research consultancies, multilateral organisations, non-profits, insurance brokers, and think tanks. Respondents represented issues in their respective countries in Africa, Asia, Europe, Latin America, and North America.

We focused on how COVID-19 is affecting the business case for microinsurance. Respondents were asked about the impact on their operations, the existing business case for microinsurance, the current insurance offering that is relevant to pandemic risk in relation to emerging consumers, low-income households and MSMEs, and whether insurers are facing pressure to provide some form of settlement or assistance to those suffering from the pandemic and its effects. Interviewees were also asked about their immediate responses to the situation, and whether they were offering, or planning to offer, new products or services related to the crisis.

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2 See our Expert Forums on Business Interruption and The Business Case for Microinsurance in COVID-19 times
4. Survey Results

Impact on operations

Nearly 75% of respondents (15 out of 19) reported that the crisis has expedited the digitalisation of their operations. One person from an insurance company said digital submissions and self-registration have increased eight-fold – evidence of increased demand from clients. Premiums are being collected via money transfer companies, and similar methods and services are being used to pay out claims. Another respondent advised that their organisation is designing an app for clients to self-register small claims under a specific amount - claims that would otherwise have needed plenty of justification documents. Most respondents were proud of their in-house online connectivity, cloud-based infrastructure, and digital payment systems that are up and running, ensuring that policy servicing and claims processing remain as smooth as they were before the crisis.

They also pointed to their staff working from home (WFH), home-schooling, online learning, and online meetings via Skype for Business, VoIP calls, Microsoft Teams, WebEx, Zoom, TeamViewer, WhatsApp, and Google Meetings and Hangouts. Respondents mostly agreed their new normal way of operating is through video conferencing and virtual formats.

On the downside, 11 respondents said that sales through local partners were low and spoke of delays in implementing new solutions and developing new partnerships due to WFH. Fear of the virus has drastically reduced the number of people who apply for loans in person, resulting in fewer and fewer enrolments over the past few months, as well as a reduction in the number of claims.

The negative economic impact of COVID-19 – lock downs and a decrease in trade, tourism, and remittances – has hit developing countries and emerging markets hard. This economic shock has significantly impacted the end-clients of MFIs\(^3\), who rely heavily on informal activity and have had difficulties keeping up with loan repayments. A drop in MFI activity has been observed: most projects have either been put on hold or have been delayed as MFIs have switched to survival mode. One respondent explained that disbursements and saving loans have been put on hold unless they can be fulfilled digitally. Another interviewee said that their distribution partners – in this case malls and retail outlets – had been almost completely shut down.

Research programmes and product launches have also been delayed. Bans on direct contact and travel prohibitions have made it impossible to conduct analysis in the field, generate new business, disseminate research, engage with stakeholders and/or conduct outreach activities in the ways that have long been seen as most effective.

On the upside, three respondents argued COVID-19 has created a favourable context for the post-pandemic era, mainly due to higher manifest demand for microinsurance by vulnerable sectors and to a process of forced financial education of the population who now have to use apps and digital wallets to make payments. They asserted that many new enrolments related to COVID-19 have taken place. More specifically, one respondent said sales were up by 40% to 50% per agent due to increased demand for insurance.

Only two respondents reported very little impact on operations, saying that working remotely, for

\(^3\) Microfinance institutions
example, was already part of their business culture and model.

Existing business case for Microinsurance

Most respondents (nearly 85%) confirmed that existing hospital cash and health microinsurance covering medical expenses already protect – to an extent – emerging consumers, low-income households, and MSMEs from some pandemic risk.

Less than half of the interviewees reported that income protection is already offered by insurers in emerging markets (for emerging consumers) or that teleconsulting is available. Business interruption insurance for this market segment was reported as being available by less than 20% of respondents, while frontline healthcare workers rarely have systematic access to life insurance (only one country was mentioned).

Insurers are experiencing external pressure to provide some form of settlement or assistance to those suffering from the pandemic and/or its effects, which in many cases is being exerted by national governments. In one case, the government was pressing MFIIs to be flexible about loan repayments and to continue approving new loans, but completely omitted insurance companies in their response plan.

Two thirds of respondents cited competitor behaviour and civil society as the sources of external pressure. A small minority of respondents indicated they had not experienced external pressure of any kind or that any pressure felt was self-inflicted – i.e. in situations where insurance policies did not exclude coverage of pandemic risk.

There was also some evidence of partnerships coming under strain, with one person emphasising the need to balance and manage risk to ensure the survival of products, reputation and relevance post-covid-19.

Immediate response

Practitioners who responded have overwhelmingly reacted by offering new insurance products or modifying the terms of existing ones to include benefits to help customers cope with the impact of COVID-19. For the most part, actual product responses – and those in the pipeline – entail modifying hospital cash benefits for COVID-19, providing COVID-19 specific covers, generating disruptive product ideas that specifically address risks related to COVID-19, and/or adding COVID-19 as an extension to existing products albeit limited in amount and scope of cover.

In a few cases, business interruption insurance with a cap on the duration of the cover has been made available to MSMEs. Similarly, some income protection cover has been made available for people who have lost their jobs and for people working in very specific sectors or in the informal sector.

Responses have also extended to value added services to partners and clients. In one case, partners were offered a grant facility to help them cover extraordinary costs related to the crisis (sanitation equipment, laptops to enable remote working, communication campaigns, etc.). Technical assistance was offered alongside as well to help partners define and implement business continuity plans, financial projections, portfolio restructuring, client surveys, etc. In another example, insurers were providing access to online medical consultations and access to the WHO
Global Outbreak Benefit for confirmed cases of COVID-19, and adding COVID-19 related benefits to existing travel insurance – although these responses were not specifically aimed at emerging consumers.

Investors in microfinance institutions – which remain a key distribution channel for microinsurance and have a crucial role to play by maintaining access to credit – have also pledged to coordinate the sector’s approach to protecting both MFIs and their clients during the COVID-19 crisis.

As noted previously, digitalisation has been ramped up and this has impacted business processes, including sales, with “remote sales” replacing “direct sales.” The full spectrum of digital media has been used to reach out to clients about claims and renewals, including emails, SMS, phone calls, Facebook Messenger, Viber, and WhatsApp. In one case, Facebook had been leveraged to generate “hot leads” by posting more frequently, combined with direct communication using call centre software. InsurTech solutions for buying and managing insurance via a mobile app have also come to the fore.

Futureproofing is already well underway: as one respondent put it, they are “oiling the machinery” to be ready for recovery. This includes analysing future plans, reviewing projections based on recovery scenarios, and doing more research to understand the situation and how it will evolve. How to conduct research in the future is also receiving attention, as respondents explore new technologies to help overcome some of the barriers created by responses to the pandemic, such as travel bans and social distancing rules.

The motivation to work with other stakeholders to promote greater use of insurance to fill the protection gap has increased. The situation has driven a degree of institutional soul-searching as teams and leaders reflect on what they can do to contribute to and support the battle against the pandemic. This is done through discussions, listening, and connecting to their various stakeholders via various means and forums. Beyond the immediate health impact, there is the question of shaping the global conversation as attention shifts to the longer-term economic fallout and the impact on social, economic and development models.

5. Concluding remarks

The survey was particularly significant to critically reveal whether insurers are reinventing the wheel or accelerating trends already underway. Certainly, the COVID-19 crisis has prompted a drop in MFI activities, delays in getting new partnerships, delays implementing new solutions, and indeed a reduction in the number of claims. Yet, it has forced the insurance industry to change specially around digitalisation, make sure they are conforming to the clients’ expectations, and offer valuable products that clients know about and understand.

Microinsurance Network, Luxembourg, 16 July 2020

About the Microinsurance Network

A not-for-profit membership-based association, the Microinsurance Network (MiN) is driven by its vision of a world where people of all income levels are more resilient and less vulnerable to daily and catastrophic risks through improved access to effective risk management tools. Low-income consumers lie at the heart of our mission. The MiN works with a broad range of stakeholders around the world to prioritise the needs, interests, and well-being of its ultimate beneficiaries.