Post-conference article

What did we learn from the 13th IMC?

The 13th International Microinsurance Conference, which took place on 7-9 November 2017 in Lima, Peru, brought together over 450 participants from all corners of the world to discuss how to accelerate the growth and improve the economic viability of microinsurance. With the overarching theme "Inclusive Insurance for the Mass Market", topics covered the contribution of microinsurance to development; the role of regulators, actuaries and insurance associations in market development; the current landscape of microinsurance in Latin America; how technology, data and analytics can shape the future of microinsurance; the integration of microinsurance within broader agricultural risk management strategies; how private companies can complement universal health cover; how governments can and are enabling sector development; and insights into new win-win partnerships along the microinsurance value chain.

Conference participants also had the opportunity to participate in a number of pre and post-conference sessions and events. These included the 11th Consultative Forum, the CEAR Academic Pre-Conference in Microinsurance, the ILO's Impact Insurance Forum, the APFF Microinsurance Roadmap for APEC Roundtable, the IPA and J-PAL Matchmaking event, as well as two field trips.

In this article, we share some of our key takeaways from the conference and side events.

Definitions matter.
There are many definitions of microinsurance and these differ from one country to the next. This is particularly true in the regulatory context, where a definition of microinsurance may not exist at all. At the Microinsurance Network, we define microinsurance as insurance specifically designed for a given low-income audience, designed to meet their needs, to be accessible and affordable to them, and managed based on risk principles. However, the emergence of mass market products — products that are designed to appeal to the whole market and are not tailored to suit the needs of low-income customers, although they may purchase them, particularly if they are affordable — has made this definition increasingly difficult to apply in practice. So until the sector reaches a stronger consensus on the definition of microinsurance, it would seem best to speak simply about inclusive insurance. However, the definition does matter: it affects the proportionality of regulatory frameworks, and also how companies report on product lines to the regulators, which in turn affects the sector's ability to measure and evaluate microinsurance take-up over time and across countries. It is therefore important to strive for a comparable and universal definition of microinsurance. The Microinsurance Network has an important role to play here, working alongside the IAIS and A2ii to support timely reporting of microinsurance data by regulators and insurance associations. Ideally, appropriate reporting should be mandatory for licensed microinsurance providers. It is also worth considering under what conditions a country needs microinsurance and should therefore prioritise microinsurance within its regulatory framework, which includes adopting a clear definition. Addressing this question effectively entails evaluating the national landscape holistically, taking into account the country's approach to risk management and social welfare, assessing whether segments of the population remain vulnerable and unprotected, and whether microinsurance could be part of providing a solution for them.

Politics take precedence over people.
"Systems must come before markets," explained Stefan Dercon, Professor of Economic Policy at the

University of Oxford and Chief Economist at the UK Department for International Development (DFID). Recent history of disasters has shown that ex-post instruments such as budget reallocation, tax increases and post-disaster credit, as well as post-disaster relief, are not efficient and effective ways of dealing with disasters. There are many examples of very poor and slow post-disaster decision-making with dramatic consequence in terms of lives lost and reconstruction budgets. Even when money has been available, a failure to define roles and responsibilities in the wake of natural disasters has meant that emergency relief aid did not reach its intended destination in time — as was the case after the 2015 Nepal earthquake. Dercon argued that the situation calls for ex-ante clearly defined risk ownership and decision-making processes. "In the aftermath of natural disasters, market-based solutions are not the primary way of reducing poverty and achieving SDGs: insurance systems are," he explained. It is the role of public policy to set up well-defined insurance systems, based on insurance principles, with a credible post-disaster plan (agreed in advance). This approach should enable a swift post-disaster decision-making process and ensure that standby financing is allocated to implement post-disaster plans. Bravely, given the context of the presentation, Dercon suggested that, since uptake of existing market-based solutions by low-income populations is still low, and there are general concerns about the quality and impact of these products, market solutions such as microinsurance may not be the best solution for addressing poverty, although they still have a role to play in social and economic development. To ensure that people are protected in the event of natural disasters the answer, in his view, must be sought in public policies rooted in insurance principles. The problem worldwide is, however, political: spending money on preparedness wins no votes, declaring disaster does.

Disruption through technology is a great asset for microinsurance.
Whilst in the long term technological disruption will profoundly affect the insurance industry in the developed world, in fragmented, disaggregated developing economies it will make it possible to draw closer to consumers. Innovations in the integration and use of technology within the inclusive insurance sphere has seen a flood of data from a multitude of sources become available to companies operating in this space. Information processing power has increased dramatically and has enabled insurance providers to take faster and better-informed decisions. There is a lot of potential for raising consumer awareness and fostering behaviour change through smart technology based on behaviour design principles. Emerging trends in InsurTech include the development of new data and analytics, index-based insurance, peer-to peer models, technology-enabled partnerships, digital platforms and demand-based insurance. An analysis of 157 InsurTech initiatives for development has found that InsurTech is already proving its worth as a great enabler of access for consumers, supporting the development of better business models, and improving available information about consumers. Where technology is not yet playing a big role, but arguably could and should be, is in helping to identify and develop a greater understanding of consumer needs and helping to educate consumers who are still unfamiliar with formal financial services.

Technology is not the silver bullet: people are.
Notwithstanding the huge potential that the use of technology brings to inclusive insurance, it cannot and should not replace personal contact. This is mostly because of the crucial role that real human interaction has in building trust with the customer. As Mathilda Ström from BIMA put it, "No one wakes up in the morning wanting to buy insurance." Someone has to explain and sell it to them. Trust is a major factor in this initial phase and that is why relationships continue to be key. "Technology is not the magic pill: people and processes must also be aligned," explained Geric Laude

of Pioneer, Philippines. Learning from failures is an important aspect in the process and must be built into a consumer-centric business model.

The study of the landscape of microinsurance in LAC shows positive trends, with the region ready to catch up on the adoption of technological advances, but lack of timely data remains an issue. The preliminary results of the 2017 study published by the Microinsurance Network and Munich Re Foundation, mapping the landscape of microinsurance in Latin America and the Caribbean (LAC), found that more than 8.2% of the population in the region had at least one microinsurance policy as of December 2016, with 52.1 million people insured and gross written premiums worth USD 420 million. The study found that the insurance penetration ranged from highs of 18-19% in Colombia and Ecuador, to 11% in Mexico and Chile, and to between 5 and 10% for a number of other countries, including Argentina, Bolivia, Brazil and Costa Rica. Regulators within the LAC region reported significant increases in premiums collected between 2013 and 2016 with a 1,799% increase reported in Brazil, 284% in Nicaragua, and 95% in Peru. In Mexico, the regulator reported that premiums increased by 36% per year on average between 2007 and 2017. At the same time, preliminary results indicate that commissions have been declining since 2014, with the average commission falling from 20% to 12%, and loss ratios remaining relatively low at an average of 46%, although this may be due to sample bias. Uptake of agricultural insurance has grown strongly, with the number of clients increasing from 35,000 in 2014 to 80,000 in 2016, based on comparable data. In terms of distribution, MFIs and other financial institutions appear to have acted as distribution channels for 77% of the lives covered that were identified in 2016.

In terms of InsurTech and in particular the use of mobile as a distribution channel, the LAC region has had a slow uptake and is far behind the insurance-through-mobile levels seen in Africa. Alternative distribution channels need to have robust infrastructure to function and reach scale and once this happens they can be an important factor in reducing costs. With a 70% penetration rate for unique mobile phone subscribers (data source GSMA) the LAC region now appears ready for the adoption of more technological advances.

The lack of timely microinsurance data has made it difficult to carry out the landscape study and is an important concern for the industry. As Doubell Chamberlain from the Microinsurance Network and Cenfri underlined, “If you cannot measure it, you cannot improve it.” A key takeaway from the discussion at the IMC is the role that regulators can and should play in facilitating data collection, ideally making it a mandatory component of the licensing process. Standardised data collection across regions, including for key indicators such as for example the size of commissions, is not only desirable but is key to understanding the sector, addressing challenges and moving forward.

Responsive legal and regulatory frameworks and proportionate supervisory approaches are needed to bring index-based agricultural insurance to scale. Education and awareness raising are fundamental to make it work.
The 11th Consultative Forum shed light on the need to bring index-based agricultural insurance to scale in the LAC region, and on the role of different stakeholders in overcoming the challenges to do so. Agricultural insurance makes up 6% of the total insurance premiums in the region, and only 0.03% of regional GDP, mostly in the form of indemnity-based insurance. Index-based insurance offers an innovative solution to some of the challenges faced by traditional insurance, by reducing administrative costs, simplifying claims processes and speeding up payouts to farmers. With many new players entering the market, a responsive legal and regulatory framework and a proportionate

supervisory approach are needed. One of the main challenges of index-based insurance remains availability and accessibility of quality weather and yield data. Remote sensing is likely going to help overcome some of these data challenges and may well prove to be the next game changer. The use of aggregators such as MFIs, input suppliers and farmers' organisations, digitalisation and the use of technology along the entire insurance value chain will further help to bring agricultural insurance to scale. The role of both the insurance industry and supervisors in educating and raising awareness about agricultural insurance amongst smallholder farmers, while focusing on consumer protection to achieve client value and long-term sustainability, was heavily emphasised.

Efficient Universal Access to Healthcare requires good management, governance and monitoring.
There has been a lot of talk about Universal Access to Healthcare but discussions often focus on collecting more revenues rather than improving cost effectiveness. According to Denis Garand, from Denis Garand & Associates, "the goal of a national health system should be a healthy population via the most cost-effective methods." To be cost-effective, a comprehensive health system needs to be managed on the basis of evidence-based information facilitating the development of a structure geared towards improved population health. Such an outcome provides all sorts of benefits to society, provided it is achieved through lower cost methods. Country data by the World Health Organisation shows that expenditure on healthcare, measured as a percentage of GDP, varies widely from country to country and that health outcomes, measured by indicators such as life expectancy, under-five child mortality rate and maternal mortality rate, are not necessarily proportionate to the amount spent. In other words: cost-effectiveness matters!

Between 100m and 150m people fall into poverty every year because of a health issue. Within a cost-effective health system there is a clear role for the private sector to provide complementary services that are profitable while adding value to excluded population segments. *Procosi* in Bolivia, for instance, has developed a nice example of such a health insurance proposition, offering coverage for 100 common services specifically targeted at providing protection to vulnerable population segments - women, children and elderly people - for a coverage of up to USD 1,000 at a premium of USD 0.11 per day.

Needless to say that good quality of the healthcare system has to be the basis for any cost-effectively managed health insurance system to lead to positive outcomes. "It's a pity that we find financial solutions to give people access to healthcare and then that healthcare is of poor quality," commented Pompy Sridhar of MSD for Mothers, India. Through its programme *Manyata*, MSD for Mothers aims to improve the quality of maternity care by linking health system stakeholders to create incentives for payers to demand quality.

Supervisory and regulatory bodies have a role to play in guiding market development: as new digital opportunities and innovative partnership models emerge, it is important that policymakers and regulators keep up-to-date with market developments.
Traditionally, the role of supervisors and regulators has been to ensure financial stability and consumer protection. Nevertheless, it is becoming increasingly apparent that they have a role to play in guiding market development: insurance markets in developing countries are often less mature than in the Western world and interventions by regulators and supervisors can help accelerate this development as well as help ensure that all segments of society have access to financial services. This in turn improves countries' economic stability and social mobility. The rapid adoption and integration of technological advances in the inclusive insurance space, and the

emergence of new business models, creates a need for supervisory bodies to stay abreast of these new developments so that they can establish adapted supervisory tools. It is therefore important that regulators and supervisors are made aware of market developments and can learn from them. Regulators need to be flexible, adopting a test-and-learn approach. The challenge is to find the right balance between removing barriers to access while ensuring a well-supervised industry.

The International Actuarial Association (IAA) will release a paper in mid-2018 to provide inclusive insurance stakeholders with a structured method for assessing business risk — both related to products and providers — and aiming to provide common language for public and private sector stakeholders to address such risks and determine the proportional actuarial involvement they require.

Diverse and innovative partnerships are a central feature of the inclusive insurance landscape.
Partnerships are even more important in the inclusive insurance space than in more traditional business lines. Partners can bring access to customers, foster customer knowledge, help build trust as well as reach scale, provide access to existing infrastructure (for enrolment, claims payment and premium collection), and facilitate financial and digital literacy. However, establishing partnerships brings its own set of challenges. It is therefore important to choose partners carefully and strategically. A session organised by the Microinsurance Network and moderated by Andrea Keenan, Vice-Chair of the Network, looked at innovative partnership models across the entire value chain, drawing on the experiences of Bima, Hollard, AXA and MiCRO. To be sustainable, partnerships must deliver win-win propositions. It is key to seek out a potential partner's willingness to commit resources to the partnership, their conviction to the double bottom line and commitment beyond the first-stage benefits of the partnership. That is, beyond the immediate effects of acquisition and loyalty to longer-term effects including insurance-based behaviour changes by the customers which will help build the resilience of the target households and communities. A partner's sales methods and channels must be appropriate. But making a partnership work takes more than that: partners have to define their strategies collaboratively and ensure alignment on each other's core value proposition, interests and incentives. It is important to: 1) understand each partner's core drivers – the needs, value addition and expectations -- in depth before launching the partnership; 2) carry out very careful due diligence on consumer protection issues such as transparency, fair treatment and data privacy related to potential partners and partnerships; 3) negotiate arrangements that work for each party, including sharing of risks and revenues; 4) agree on success metrics and continuously monitor performance.
Effective customer education is a must, and it is very challenging. Planning a credible path to sustainability that will enhance brand and long-term value for all partners is key, whilst recognising that partners often have different sustainability time frames. More broadly speaking, different types of organisations often work at very different speeds and it is therefore important to be clear on goals and the timetable up front.
Making partnerships work means striving for continuous innovation, which is not always technology-based. One must experiment and carry out pilot studies. And one must deliver on promises, even when circumstances change.

A multi-stakeholder approach is key to innovation.
All stakeholders have an important role to play in moving the inclusive insurance sector forward, from companies raising consumer awareness to regulators evolving to adapt to sector innovations. Innovations come from bringing together all players, involving multidisciplinary, multinational and

multi-age teams. As Doubell Chamberlain from Cenfri and Chair of the Microinsurance Network said, "We need the right people around the table first. The topics will follow."

Governments need to be involved.

In closing, the need for government involvement in creating an enabling environment, conducive for the inclusive insurance sector to thrive, permeated many of the discussions at the 13^{th} IMC. To this end, we, as a sector must get better at reaching out to the public sector, building bridges and enhancing their understanding so that they can become more aware of the importance of their role within the development of the sector, and the value of such interventions to the welfare and economic development of their countries.