micro insurance network

20 Years DRIVING INCLUSION

TAG Zambia: Landscape Findings and Customer Value

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The Landscape Study

- Unique and independent source for research data, and benchmark for tracking the development of the inclusive insurance market
- Informs policy decisions as well as business decisions, product design, and market entry for private sector
- Increasing interest over time:
  - 2016 study – 632 downloads
  - 2018 study – 1,209 downloads
  - 2020 study – 2,971 downloads

Source: MiN Landscape of Microinsurance 2021 Data and Report

How we define microinsurance products

Microinsurance products have modest premium levels based on the risks insured. For our purposes, the term can be used interchangeably with 'inclusive insurance’.

These products are developed intentionally to serve the low-income consumers.

For the purposes of this study, the term microinsurance covers all products that fit within this definition and may therefore include products that are not considered as microinsurance by a national insurance supervisor, because such definitions vary from one country to another.

Source: MiN Landscape of Microinsurance 2021 Data and Report

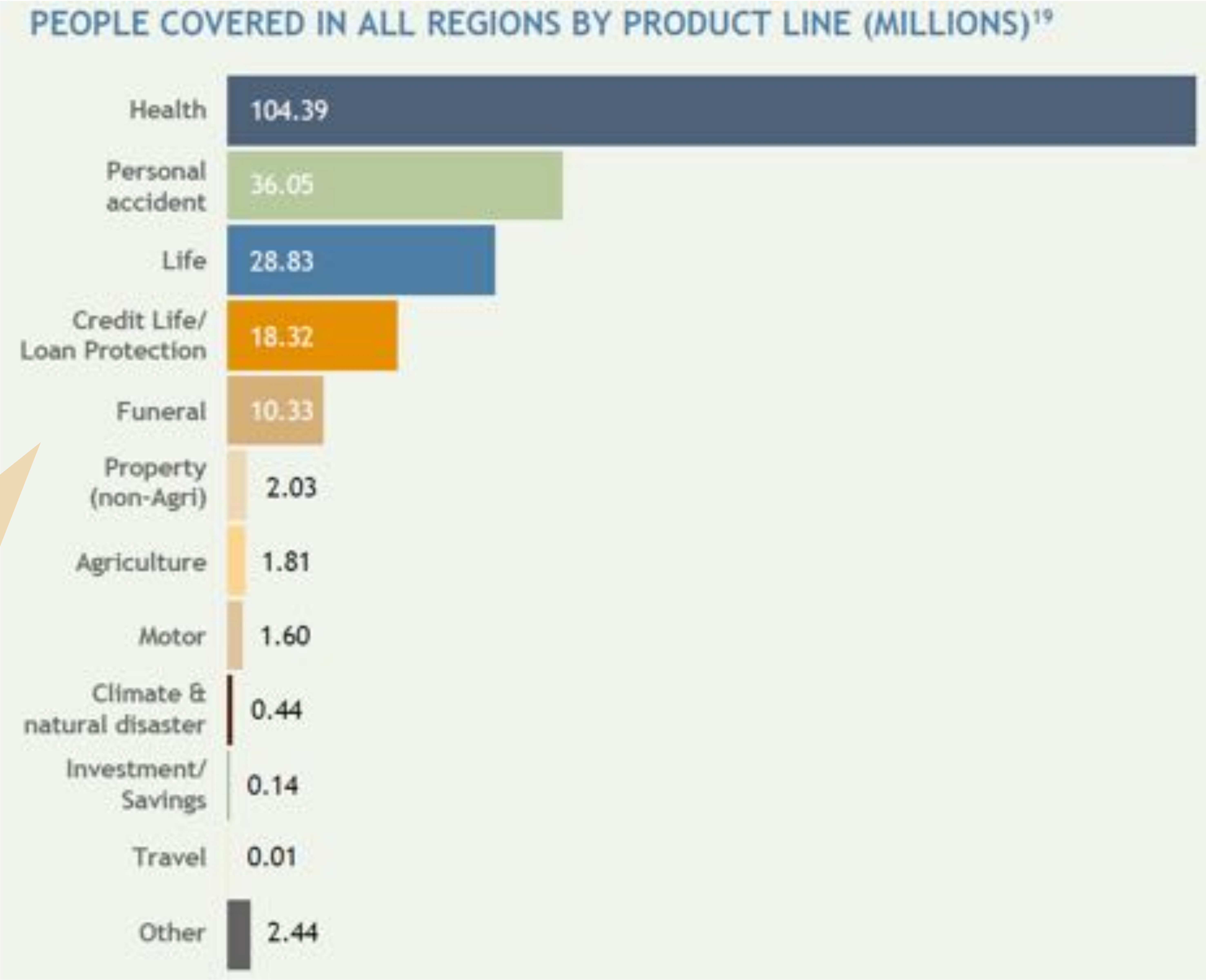
Headlines from 2021

- 704 products from 30 countries across Africa, Asia, and Latin America and the Caribbean
- USD 1.129 billion in microinsurance premiums (6% of the estimated potential market)
- 179 - 377 million people covered by ~90 million policies (6-14% of the target population)

REGION	Number of people reached by microinsurance	Share of the target population covered	Estimated value of the microinsurance market in target countries (USD)	Proportion of the estimated microinsurance market value captured
Africa	17-37 million	4-9%	5.0 billion	11%
Asia	147-300 million	7-15%	7.7 billion	4%
Latin America and the Caribbean	14-40 million	4-12%	6.8 billion	4%
All regions	179-377 million	6-14%	19.4 billion	6%

Source: MiN Landscape of Microinsurance 2021 Data and Report

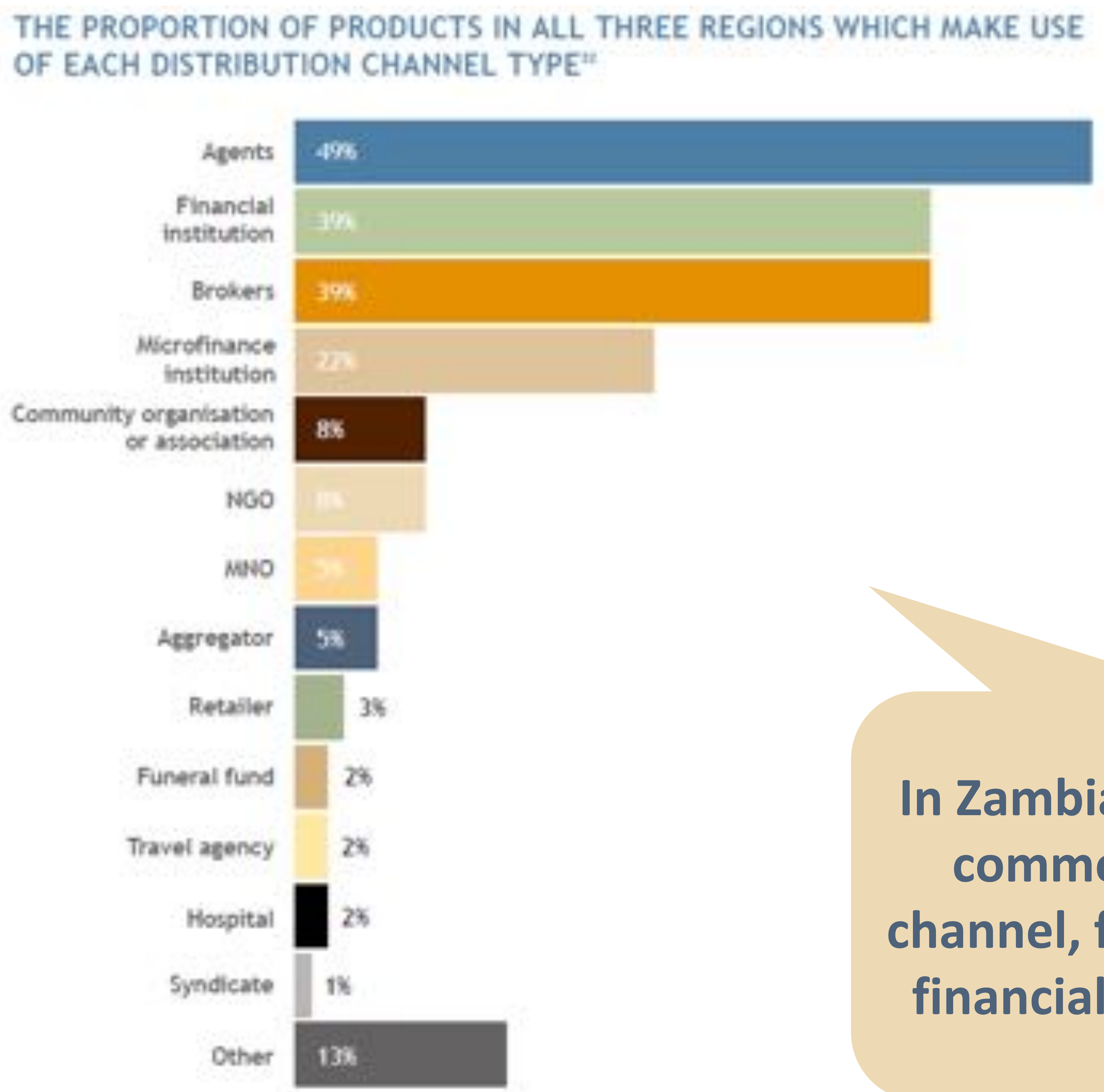
Coverage



In our Landscape data on Zambia, agriculture and climate/natural disaster covered the most people, followed by life and credit life/loan protection, then others – but we don't have data on the full market

Source: MiN Landscape of Microinsurance 2021 Data and Report

Distribution



In Zambia, agents were the most commonly used distribution channel, followed by aggregators, financial institutions, and NGOs

Source: MiN Landscape of Microinsurance 2021 Data and Report

Gender

THE MEDIAN PERCENTAGE OF FEMALE POLICYHOLDERS AND OF WOMEN COVERED IN EACH REGION

REGION	Median percentage of female policyholders	Median share of women covered as a percentage of total people covered
Africa	45%	46%
Asia	42%	42%
Latin America and the Caribbean	45%	48%
All regions	45%	46%

Source: MiN Landscape of Microinsurance 2021 Data and Report

Claims

MEDIAN CLAIMS RATIOS BY REGION

REGION	Claims ratio	Percentage point change from 2019 (all data)	Percentage point change from 2019 (only insurers that reported in both years)	Claims ratio for products launched before 2020
Africa	17%	-11%	-16%	24%
Asia	16%	-9%	+2%	21%
Latin America and the Caribbean	12%	+2%	+14%	14%
All regions	15%	-8%	-3%	21%

CLAIMS METRICS BY REGION

REGION	Share of products with single digit claims ratios	Median average claims size (USD)[40]	Median claims rejection rates	Median claims turnaround times (days)[41]
Africa	38%	411	1%	3
Asia	47%	266	3%	10
Latin America and the Caribbean	48%	914	9%	15
All regions	43%	517	3%	10

Source: MiN Landscape of Microinsurance 2021 Data and Report

What are claims ratios?

Put simply, this ratio measures “the average proportion of premium that is returned to the insured in the form of benefits.”[1]

Incurred claims ratio = **Claims incurred** / **Earned premiums**

Source: [1]A2ii/IAIS, Report of the 21st A2ii – IAIS Consultation Call: Measuring insurance development: beyond the insurance penetration rate (23 March 2017)

What do they tell us?

- The value of the product to customers.
- What the customer experience is like: whether customers are claiming as expected and whether the product is tangible.
- The underlying claims frequency as well as the viability and sustainability of the product, including giving useful information for the actuarial team – e.g., for product (re)pricing.
- Whether there are potential problems with a product (for example, mis-selling or poorly-designed claims processes).

Source: MiN Landscape of Microinsurance 2021 Data and Report

Causes (or amplifiers) of low claims ratios

Customer experience and trust

- Limited product awareness/ understanding, perhaps resulting from poor quality sales processes
- Customers not being aware that they have cover/qualify to claim (especially for bundled/compulsory products)
- Poorly-designed claims processes – these may be overly complicated, have excessive documentation requirements, or include exclusions
- Shocks (like COVID-19) which may limit the ability of customers to claim for a period of time

Product design and experience

- Poorly-priced products – potentially including incorrect estimations of expenses and risks, or excessive profits
- Data limitations, claims volatility, and uncertainty – particularly for new-innovative products – leading to the increased need for caution in product pricing
- New products with no claims (because of waiting periods) or limited claims (as expected)
- Products designed for low frequency events, e.g., weather index products design for one-in-ten-year events

Expenses

- High intermediary/distribution costs (e.g., brokers who earn high commissions, or products using multiple distribution partners), which increase the combined ratio, leaving less space for claims
- High costs/expenses more broadly, commonly driven by inefficiencies
- Products with very small premiums, where expenses are expected to take up a significant portion of premium, resulting in little space for claims

Regulatory guidance/intervention across all three areas

Source: Multiple, notably ILO's Impact Insurance Facility, Pricing for microinsurance: A technical guide, written by Peter Wrede and Caroline Phily, with some content from John J. Wipf, Clémence Tatin-Jaleran, and Denis Garand.

The importance of context

- Other ratios and metrics like TATs and rejection rates should be considered alongside claims ratios, the age of the product should be considered, and the trend over time should be preferred to a point-in-time view.
- Claims ratios may not be comparable between different product types and across insurers, including because of potential differences in calculation methodologies.
- It is extremely difficult to define what counts as too low for a claims ratio and noted that low claims ratios are not necessarily bad.
- Insurance can deliver value in multiple forms beyond paying claims, including peace of mind, access to inputs and/or value-added services like medical/agricultural information (and resulting risk-reducing behaviour), and better credit. Telemedicine is a global trend we have seen in this regard
- And, as explored above, there can be good reasons for products to have low claims ratios. In this context, it is important not to stifle innovation – especially in countries where penetration is low – by, for example, regulating solely based on claims ratios.

Source: MiN Landscape of Microinsurance 2021 Data and Report

Recommendations

1. Critically examine products from a customer-centric viewpoint and deliberately build the best customer experience possible.
2. Look for opportunities to improve the clarity and efficiency of sales and claims processes and be aware of the need for customer education and awareness.
3. Identify opportunities to increase operational efficiency (including through digitalisation) and reduce costs to create space for higher claims. Start by looking at distribution models, especially where expensive intermediaries are used.
4. Be prepared to iterate and redesign your products over time. See where you can add value in.
5. Work together as an industry to create a regulatory environment that encourages responsible innovation

Source: MiN Landscape of Microinsurance 2021 Data and Report

Thank you

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