



CARIBBEAN ACTUARIAL ASSOCIATION



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Inclusive Insurance Markets (Microinsurance)

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INTRODUCTION TO MICROINSURANCE

Financial Inclusion

The condition whereby all working age adults have effective access to credit, savings, payments, and insurance from formal providers.

Microinsurance

Any form of protection against risks that is designed for and accessed by low-income people, provided by different categories of carriers but operating on basic principles of insurance and funded by premiums.

(IAIS 2007)

Inclusive Insurance

- An emerging term is “inclusive insurance”:
 - Reflects the underlying objective of financial inclusion: increasing access to affordable and appropriate insurance products
 - Less reliance on definition of “low income”
 - Insurance products designed for low income or under-served people
 - Addresses the particular risks and insurance needs specific to the under-served population
 - Not just “scaled down” traditional insurance

Microinsurance Products/Programs

- Microinsurance products are characterised by:
 - Low affordable premiums
 - Low or limited insured benefits
 - Simplicity of coverage terms, policies and enrolment forms
 - Ease of claims submission and settlement
- Microinsurance programs may involve:
 - Different business models
 - Alternative distribution channels and strategies

THE IMPACT OF MICROINSURANCE

A review of 38 studies on the impact of microinsurance provides the following insights (Source: De Bock and Ontiveros, 2013, Facility Research Paper 35)

Lower out-of-pocket spending

15 studies linked microinsurance to a reduction of expenditures

Reduction in expenditures was also found in **Cambodia, Ghana, India, Rwanda, Senegal and Vietnam**



44%

average decrease found in treatment costs for a community health scheme in Cambodia (Levine and Polimeni, 2012)

In China, however, no impact on expenditure was found (Lei and Lin, 2012)

Increase in the utilization of health care services

20

studies found an increase in the use of health services

15%

average increase for a community-based health scheme in Nigeria (Gustafsson-Wright, 2013)

In China, self-medication was reduced



In Rwanda, children covered by the Mutuelles de Santé were about

22%

more likely to receive treatment when sick than non-insured (Binagwaho et al., 2012)

Lower reliance on coping burdensome strategies

7 studies linked the adoption of microinsurance to the reduction of costly risk-coping strategies such as

assets sales, indebtedness, child labour, dissaving

Livestock insurance in Kenya

29%

less asset selling

Health insurance in India

33%

less borrowing

Health insurance in Pakistan

7%

less child labour

Janzen and Carter (2013), Aggarwal (2010), Landmann and Frolich (2013)

In India, an OP community scheme was found to reduce days of hospitalization and health expenses (Mahalet al., 2013)



In Kenya, however, no significant improvement in utilization of health facilities was found (Dercon et al., 2012)

Better health outcomes

Improvements in health conditions found in **5** studies include:

increase in the body mass index of adults and height and weight of young children (Pradhan and Wagstaff, 2005)

reduction of infant mortality (Binagwaho et al., 2012)

and in the risk of infection (Quimbo et al., 2011)

In Cambodia, however, no impact on children's health was found (Levine and Polimeni, 2012)

Better financial choices in the absence of a shock

8 studies found an improvement in agricultural production due to microinsurance

Higher investments and outputs were found in **China, Ethiopia, India and Ghana**



In China, insurance was responsible for

27%

higher investment in cross-bred pigs among policyholders (Chen et al., 2013)

In Ghana, insured farmers increased expenditure on fertilizer

by **24%**

and the area of land cultivated by **17%** (Karlán et al., 2012)

TO SUM IT UP:

Outcomes & impacts

- Lower out-of-pocket spending
- Lower reliance on burdensome strategies
- Better financial choices in the absence of a shock
- Increase in the utilization of health care services
- Better health outcomes

Evidence available



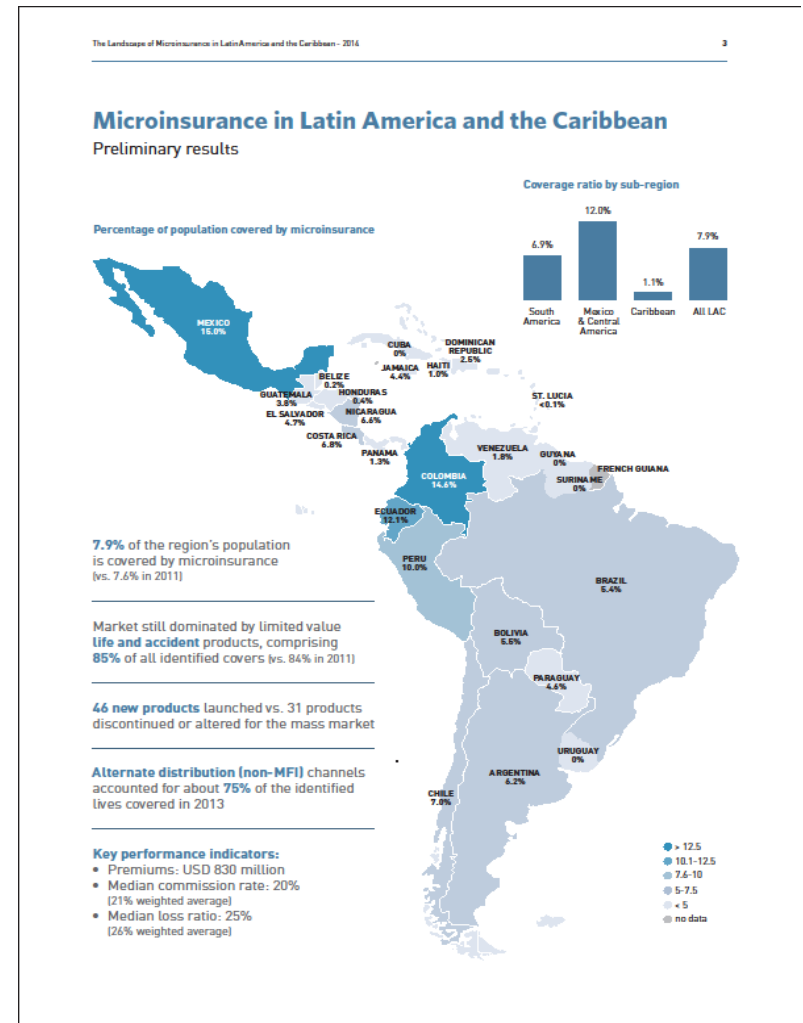
MICROINSURANCE IN THE CARIBBEAN



Preliminary Results: Landscape of Microinsurance in Latin America and the Caribbean (2014)

- Coverage ratio by region:
 - South America 6.9%
 - Mexico & Central America 12.0%
 - Caribbean 1.1%

- By country:
 - Jamaica 4.4%
 - Haiti 1.0%
 - Dominican Republic 2.5%
 - St. Lucia < 0.1%



Haiti: some examples

- Alternative Insurance Company (AIC)
 - Protecta – funeral insurance product
- Fonkoze and MiCRO
 - Kore-W – catastrophe property insurance for MFI clients
- MiCRO (Microinsurance Catastrophe Risk Organisation)
 - Specialty reinsurance, focused on natural hazards that affect low income populations
 - Public private partnership

Jamaica:

- A2ii diagnostic conducted in 2013/2014
 - Key issues identified included need for alternative distribution channels and consumer protection
- FSC developing microinsurance specific regulations to introduce in 2015
- Existing MI products - Jamaica International Insurance Company:
 - BillProtect, accident insurance
 - GK-AMed, personal accident/medical expenses
 - Livelihood Protection Policy, weather-index-based product developed by CCRIF and partners

Development of MI market in the Caribbean: some considerations

- Regional diversity
 - Income/poverty levels vary considerably
- Type of risks faced by target market
 - Natural hazards, catastrophes: difficult to design affordable, sustainable, and easy to understand products
- Insurance market
 - Insurance providers need to see value in low income market
 - Need broad range of distribution channels
- Actuarial resources
 - Primarily focused on mainstream insurance and pensions
 - Little to no involvement in MI market to date

HOW ARE ACTUARIES INVOLVED?



Actuaries are involved in microinsurance markets through:

- Technical Assistance/Consulting
 - Country diagnostics
 - Product development and pricing
 - Project reviews and experience analysis
 - Training and capacity building
 - Regulation and supervision
- Volunteer Assignments
 - ILO Microinsurance Fellowships

- Policy and Advocacy
 - IAA Microinsurance Working Group and other subcommittees
 - Access to Insurance Initiative (A2ii)
- Research and Actuarial Tools
 - ILO's Impact Insurance Facility (formerly Microinsurance Innovative Facility)
 - UK Actuarial Profession Microinsurance Working Party
 - Actuarial toolkit

IAA Task Force paper

- The IAA Committee on Insurance Regulation formed a Task Force on Microinsurance to develop a short paper in response to the IAIS Application Paper (2012)
 - to outline the current context and challenges in providing qualified actuarial or technical resources available in microinsurance markets
 - to propose ideas and specific approaches to address these issues and explore avenues for further development

Key points

- MI programs may not require the same level of actuarial expertise (depending on product and risk profile)
- MI programs may not have access to actuarial professionals
 - Limited availability, cost, under-estimate value
- But, there is still a need for risk carriers to determine adequate:
 - premiums
 - claim liabilities, and
 - capital requirements
- Recommended a proportional approach to regulation with respect to actuarial services

Proportionate approach to regulation

- A proportionate approach to regulation minimizes the need for actuaries while defining areas where actuaries are needed or not
- The approach will depend on the unique local insurance market (a “one size fits all” approach will not work)
 - Each regulator will need to assess the characteristics of their own market, including existing regulations
 - and balance the need for actuarial services with available supply

Proportional Approach Examples

Feature	Extent of actuarial involvement required		
	Low	Medium	High
Sum insured	Low	Medium	High / uncapped
Term of insurance	Short-term	Medium – most benefits paid within the same period as premium is received.	Long-term, with guaranteed renewability. Long-tail classes
Moral hazard and anti-selection	Minimal opportunity for moral hazard and anti-selection High participation	Moderate risk of anti-selection and moral hazard, but measures in place to manage this (eg: good risk selection, strong community participation etc.)	High risk of anti-selection inherent in the product. Moral hazard risk high due to product design.

Proportional Approach Examples

Feature	Extent of actuarial involvement required		
	Low	Medium	High
Quality and/or extent of data	Good quality, comprehensive, relevant data is available, with several years history available	Some gaps in data, which can be met relatively easily by reference to industry data or other schemes / countries.	New product with limited history; limited local data to understand risks or historical data available for a short timeframe only.
Reinsurance	Significant portion of risk is reinsured to reputable reinsurers through easy-to-understand contracts.	Some risk retained by microinsurer. Reinsurance arrangements are clear and with reputable reinsurers.	Limited reinsurance, for catastrophic risks only, and limited recourse to additional funding. Non-standard reinsurance arrangements.

HOW TO GET INVOLVED



How to get involved

- Local or regional opportunities and initiatives
 - Volunteer technical assistance
- Actuarial associations
 - IAA MIWG
 - UK working party
- Microinsurance Network
 - working groups, registry of consultants for RFPs
- Access to insurance initiative (A2ii)

- International development organisations
 - ILO's Impact Insurance Facility (consultant registry)
 - World Bank and affiliates (IADB, etc.)
 - GIZ, ADB, etc.
- Munich Re annual microinsurance conference
 - Research, networking
- Linked in groups: Microinsurance, microinsurance actuaries, etc.

References and further reading

- IAIS, “Application Paper on Regulation and Supervision supporting Inclusive Insurance Markets,” October 2012,http://www.iaisweb.org/view/element_href.cfm?src=1/16664.pdf
- <http://www.microinsurancefacility.org/emerging-insights/ei76>
- http://www.lloyds.com/~media/files/news%20and%20insight/360%20risk%20insight/global_underinsurance_report_311012.pdf
- IAA, “Addressing the Gap in Actuarial Services in Inclusive Insurance Markets,” May 2014,
http://www.actuaries.org/LIBRARY/Papers/Paper_Inclusive_Insurance_Markets.pdf

Reports on microinsurance in the Caribbean

- http://www.a2ii.org/fileadmin/data_storage/documents/internal_documents/Events/Jamaica-Country-Diagnostic-Key-Findings.pdf
- <http://www.microinsurancenetwork.org/groups/landscape-microinsurance-latin-america-and-caribbean-2011>
- <http://www.inclusivefinanceplatform.nl/news/news/318/press-release-microinsurance-premium-reaches-over-800-million-usd-in-latin-america-and-the-caribbean>
- <http://www.microinsurancefacility.org/projects/lessons/protecta-funeral-insurance>
- <http://www.microinsurancefacility.org/projects/lessons/kore-w-catastrophe-insurance>
- <http://www.microinsurancefacility.org/emerging-insights/ei41>

Related links

- Impact Insurance Facility:
<http://www.microinsurancefacility.org/>
- Microinsurance Network:
<http://www.microinsurancenetwork.org/>
- <http://www.munichre-foundation.org/home/Microinsurance/2014IMC.html>
- Access to Insurance Initiative (A2ii): <http://www.access-to-insurance.org/>
- Microinsurance Centre:
<http://www.microinsurancecentre.org/>

Q&A

