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Microinsurance: A Business Case for the Caribbean

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What is Microinsurance?



Microinsurance vs Inclusive Insurance

Microinsurance

- Developed and designed **specifically** for the poor or near poor.

What if everyone buys MI products?

- It happens. MI products **don't provide the coverage of regular insurance** so the **market filters out those who want higher benefits** (i.e.) they don't buy the product or are unhappy with the coverage when they claim so they don't renew.

Inclusive Insurance

- Non poor can purchase the products as they **can't afford** or **don't have access** to regular insurance.

Mass insurance

- Designed for everyone

Why do Microinsurance?

- Creating access
 - Where do people turn when under financial stress?
 - Get out of poverty cycle
- Financial inclusion
 - Islands with higher average incomes: Do all have access to insurance? Think about those in the rural areas, lower wage earners.
 - Helping people cope with financial shocks
- Expand market and potential clients



Global examples of profitability

BUSINESS CASE FOR MICROINSURANCE

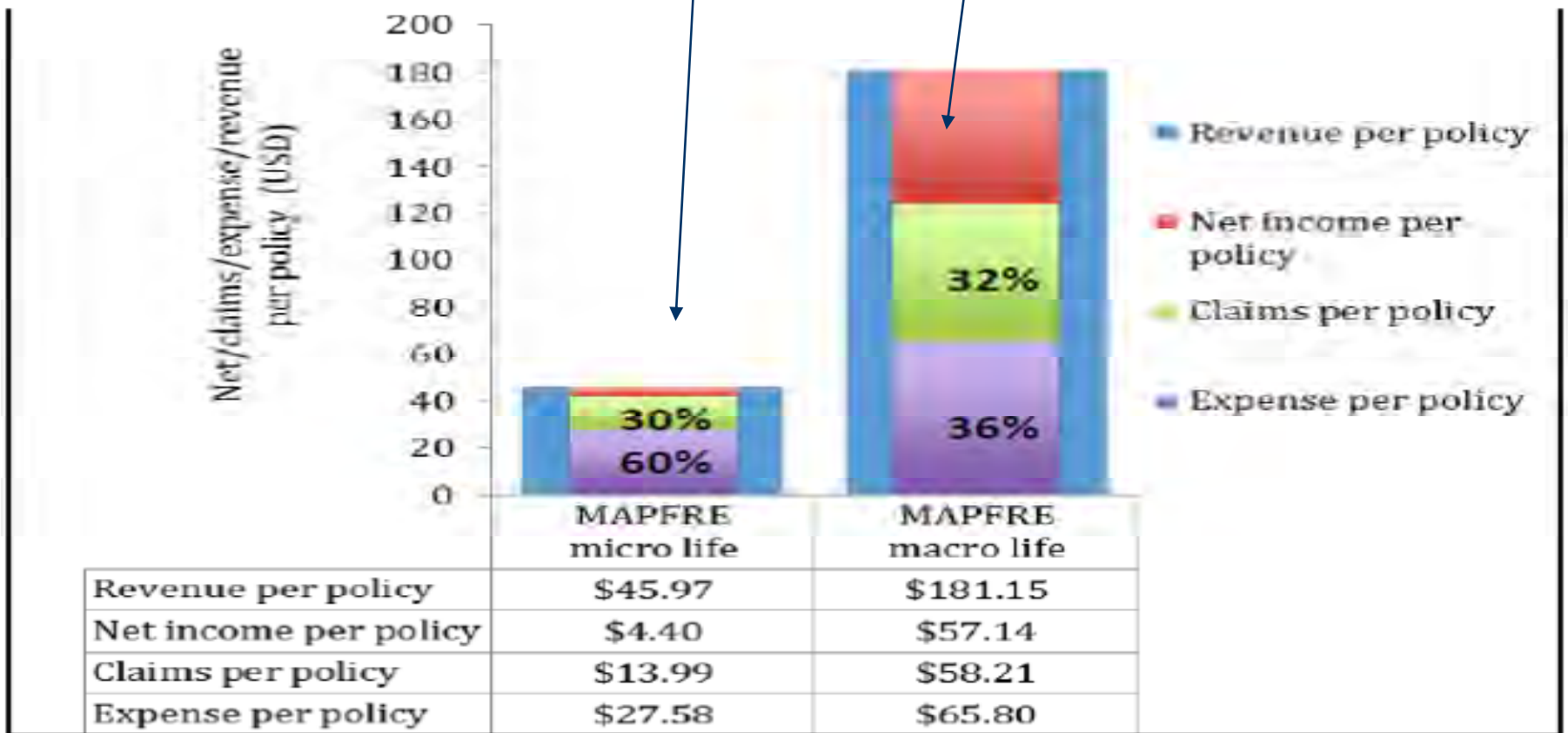


Margin comparison – Micro vs Regular Life policies

Net Income Ratio (MAPFRE in Colombia)

Micro: 9.8% Macro: 31.5%

Figure 6: MA



Source: MILK Brief 21: Colombian life microinsurance: an emerging success story (April 2013). Koven and Martin (MILK, MIC)

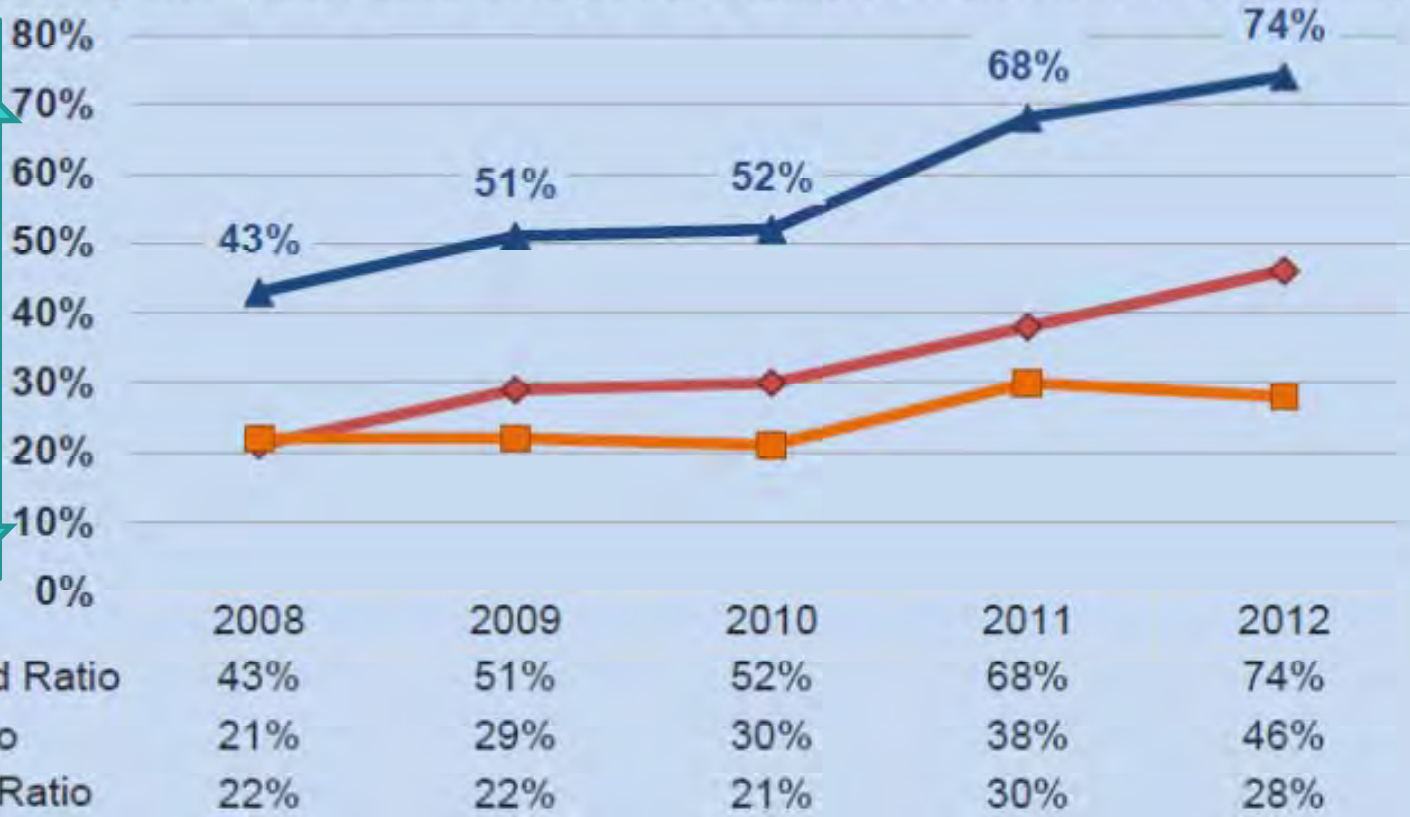
Is MI profitable? 5 Life co's in Philippines

Figure 11: Loss & expense ratios, 2008-2012 (CARD, CLIMBS, PPLIC, TSPI, MicroEnsure)

Since 2008:

- Premium grew
- Loss ratio is higher
- **Profits up 3.6M**

NI ratio decreased



Profit margin:
(1-combined ratio)

	Premium	19.6 M	27M	38.3M	43.2M	55.3M
Profit (\$)	11 M	13 M	18 M	13.8 M	14.4M	
Profit margin	57%	49%	48%	32%	26%	

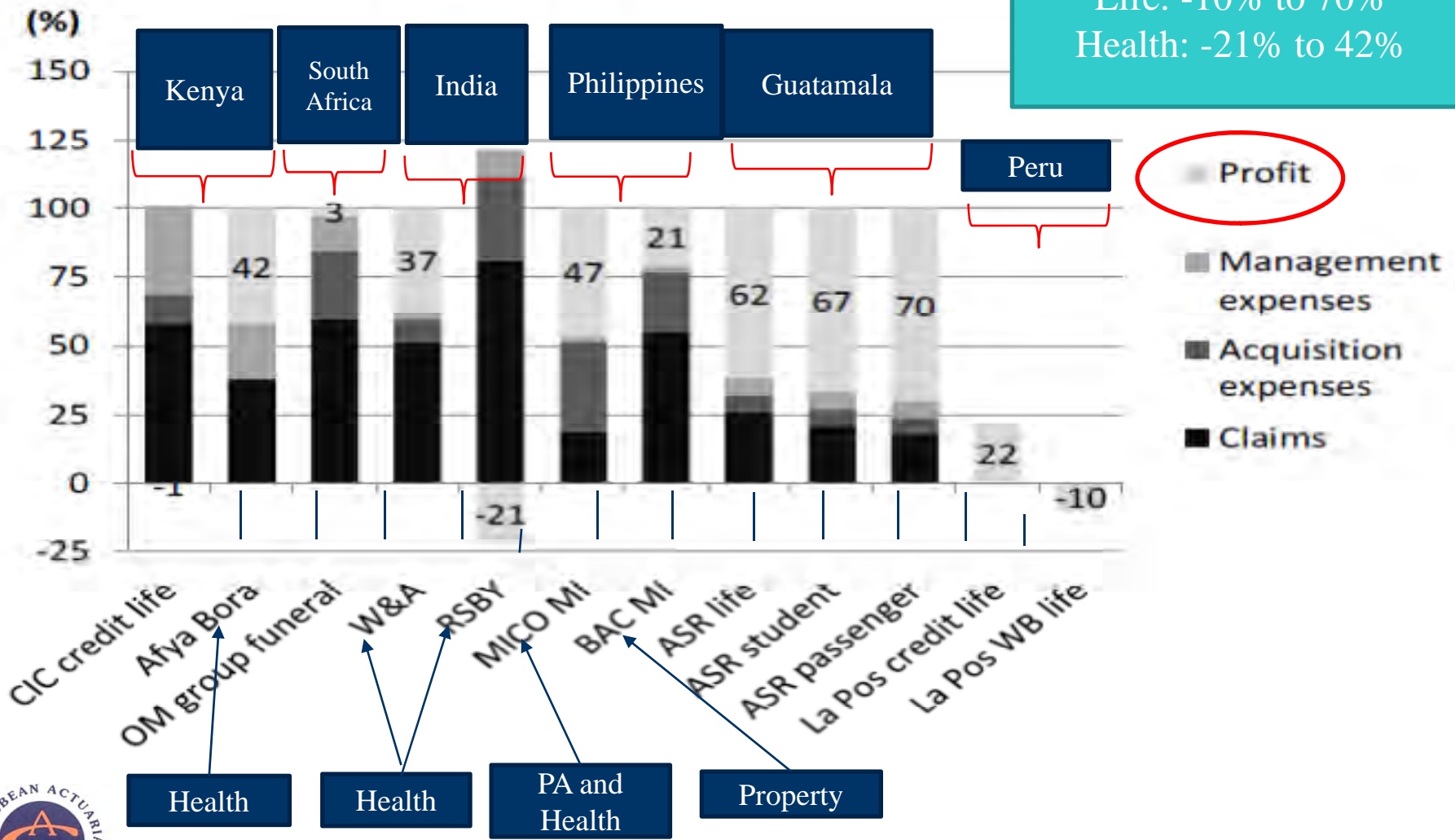


Source: Win-Win-Win Profitability and client value along the life microinsurance value chain in the Philippines (Jan 2014), Koven, Wipf, Zimmerman, McCord; (MILK, MIC)

Global MI profit percentages

Figure 2. Gross insurance profit ratio, 2012

Profits range from:
 Credit Life: -1% to 22%
 Life: -10% to 70%
 Health: -21% to 42%



2012 Africa Landscape Study: Is MI profitable?

Combined Ratios:

Aggregate

- Combined ratio of **86%**

31% of products

- Combined ratio of **>100%**.
- These are mostly smaller schemes

Newer products:

- More likely to have a high combined ratio (no profit) - typically due to high expenses.
- Newer products (started 2012+) **110%** vs **85%** for pre-2012.

Health or agriculture

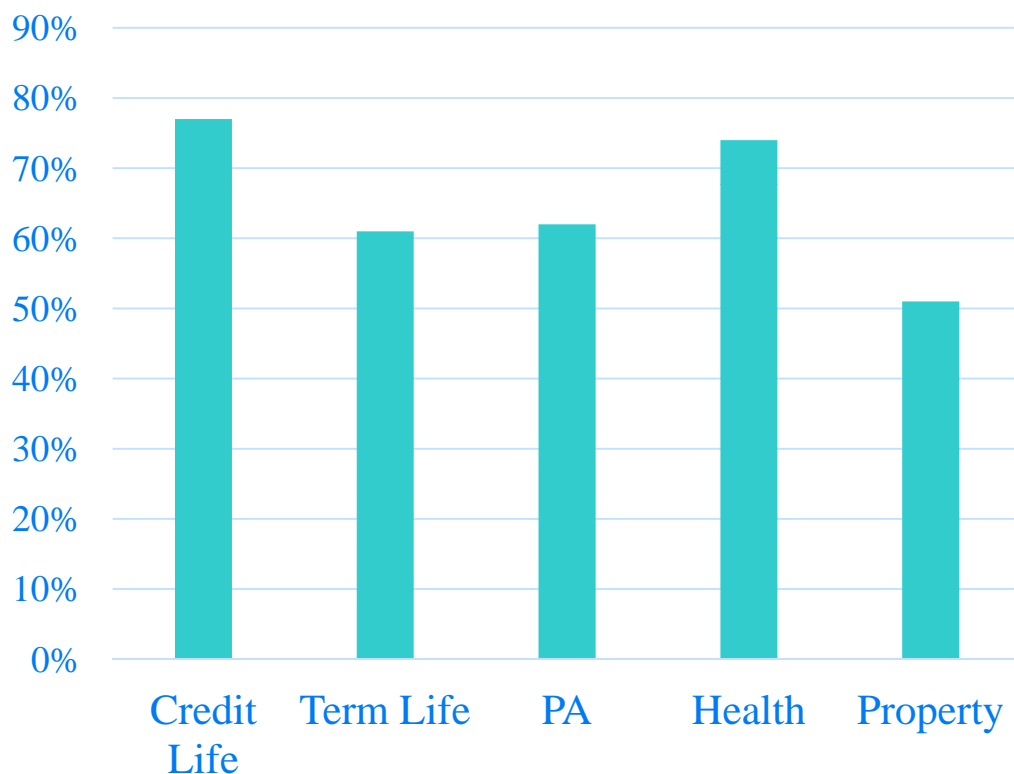
- More likely to not have a profit
- Mostly newer products



Source: Expert Forum: Micro insurance in Africa; Module 2: Micro insurance in Africa and Business case recording, March 2016 (MIN, Munich Re, MFW4A, MIC from the Landscape Study in Africa 2015 (McCord, Biese from MIC)

Latin America - Caribbean Landscape Study

LAC Combined ratios across product types



Combined ratio range
(reported by majority of respondents): 35% to 95%

Keeping administrative costs and commissions down offers higher client value and a better chance for profitability.



Source: McCord and Biese. The Landscape of Microinsurance in Latin America and the Caribbean (2015), Microinsurance Network

Suggested minimum risk pools - Scale

Risk Event	Minimum size of risk pool
Term life	Approx. 10,000 insured persons, higher if insured amount is “very high”
Credit life	Approx. 10,000 loans covered for a year or equivalent Higher if the loans are “very large”.
Fire of household dwelling	The required minimum size is determined by the expected incidence of fires. Actuaries have calculated that a program is “large” enough to self-insure if it generates at least 4330 claims in a year. (i.e.) 4330/incidence
Hospitalization (covering both surgery and sickness of all family members)	Approx. 10 000 insured persons - roughly 2 000 households if an average of 5 persons per household is assumed.



Source: Wipf and Garand, An Introduction to Microinsurance (2011)

What is driving Access and Brand Name?

Varying results in microinsurance....so what drives improved access?

- A. Learning to better communicate with clients
- B. Scale needed for profitability:
 - Approx. 10,000 – 20,000
 - Caribbean context: Same parent insurance companies on many islands. Are partnerships amongst islands possible?
 - **Really depends on product type and management**

Management, monitoring and responding to results

is KEY!!!



What is driving profitability?

C. Suggested profit margin: < 10%

- Profitability is a Long term strategy

D. Improved operational efficiencies: Keep Costs down!

MOST IMPORTANTLY:

_MI helps regular business results and can **lead to expanding markets and an overall improvement for the insurer,**

- eg. AIG in Uganda learnt communication, efficiency of process and distribution



Keys to Success in Microinsurance

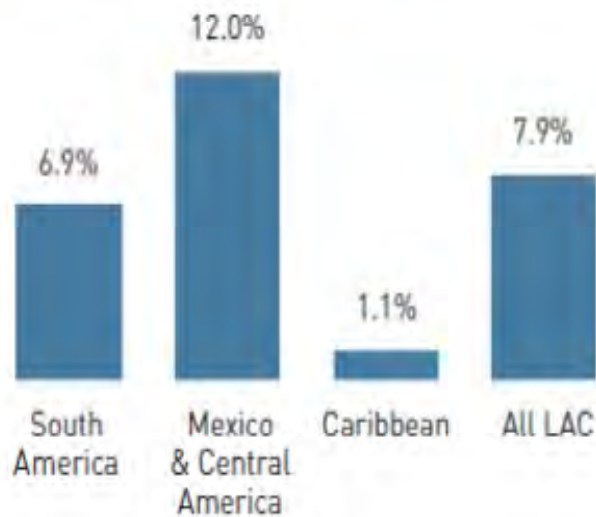
MI is Different from regular insurance:

- Simple products and approaches
- Lower premium, Lower benefits, high outreach
- Distribution
- Efficiencies
- Needs of the people
- Management response!!!

Caribbean and Latin America indicators

Source: The Landscape of Latin America and the Caribbean-2014 Preliminary Briefing Note, (McCord, Biese of MIC). MIN. Munich Re

Coverage ratio by sub-region

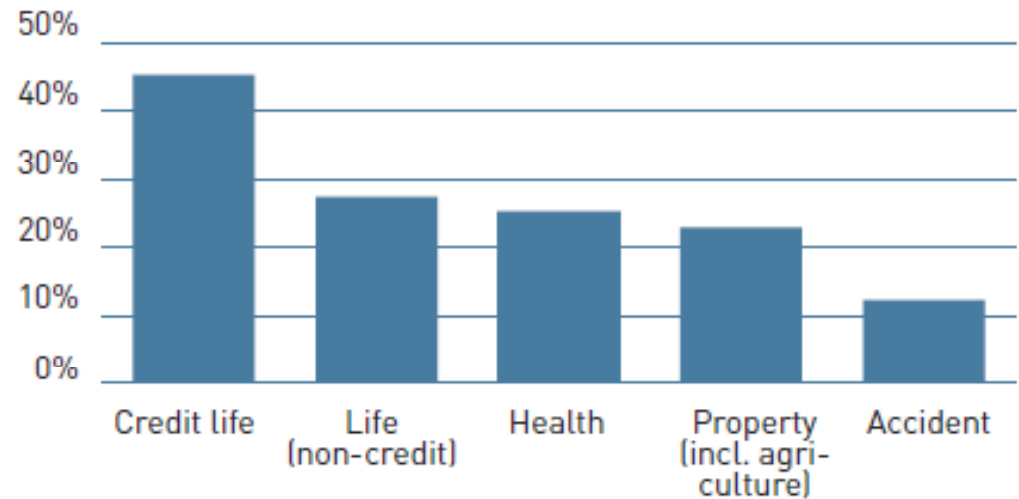


2013- Market is dominated by limited cover **life** and **accident** accounting for 85% of covers

Since 2011, **57% of new products are Accident**

Average commissions: 21%
 Average Loss ratio: 26%
 3/4 of reported products have loss ratios <40%

Figure 5: Median loss ratios by product type



Distribution by Channel: Compare LAC to Africa

LAC distribution by product →
 Source: The Landscape of Latin America and the Caribbean-2014 Preliminary Briefing Note, (McCord, Biese of MIC), MIN, Munich Re

Figure 2: Lives covered by distribution channel

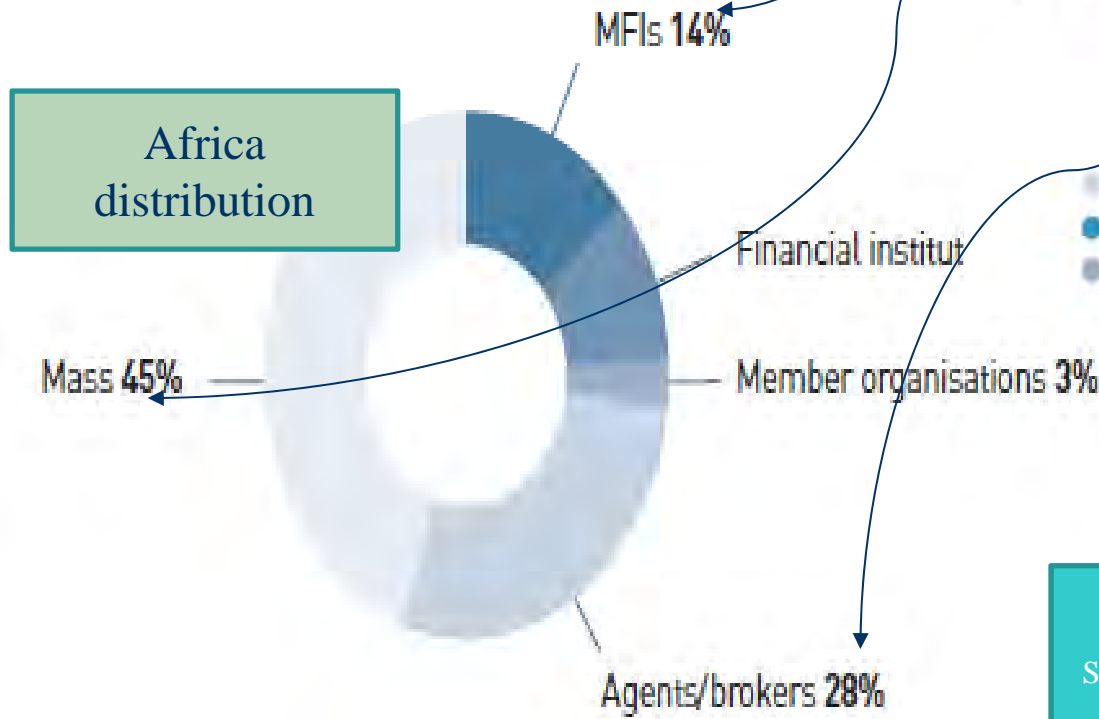
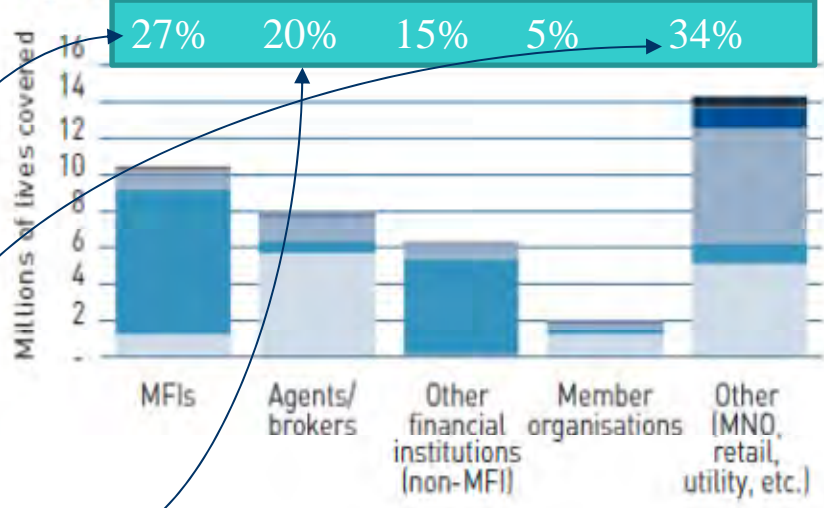


Figure 3: Primary product type by channel (lives covered)



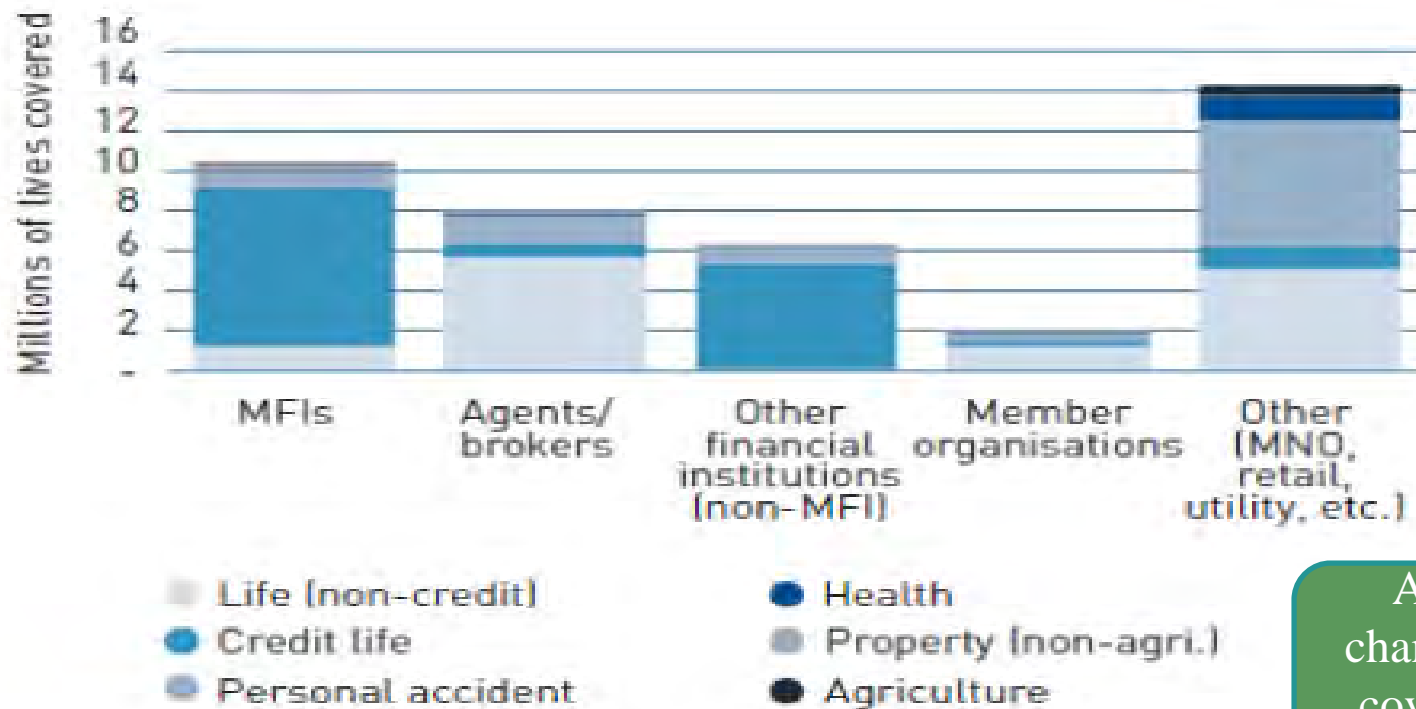
LAC Products by channel:
 Other: Agriculture, health, property, accident, life (non credit)
 Agents: Life (non credit)
 MFI, non MFI: credit life

← Africa
 Source: The Landscape of Africa 2015 Preliminary Briefing Note, (McCord, Biese of MIC), MIN, Munich Re

Caribbean and Latin America - Distribution

Source: The Landscape of Latin America and the Caribbean-2014 Preliminary Briefing Note, (McCord, Biese of MIC), MIN, Munich Re

Figure 3: Primary product type by channel (lives covered)



Alternative channels (other) cover the most lives



Current initiatives in Caribbean that have MI characteristics (under regular insurance regulations):

- Belize – mobile insurance
- St. Lucia – weather index, looking at mobile
- Haiti – funeral insurance, weather index for agriculture
- St. Lucia and Jamaica: weather index project
- All islands: Credit unions would have MI type products such as credit life.
- Jamaica: (MI regulations in process)
 - Credit unions – life coverages for account holders
 - Voluntary term life and ADD: targeting coops/cr.un
 - Partnership with government Social assistance plan

Growth: Product trends since 2011 (Africa)

- From 2011 to 2014:
 - More **voluntary** products (36% in 2011, 58% in 2014)
 - More **bundled** products (30% in 2011, 45% in 2014)
 - More **health and property** – out of 100 products launched since 2011 **only 1 was purely credit life**

Source: Expert Forum: Micro insurance in Africa; Module 1: Micro insurance in Africa and Product Evolution, March 2016 (MIN, Munich Re, MFW4A, MIC)



Product trends since 2011 (Africa)

- From 2011 to 2014:
 - Evolution to more products **addressing client needs more effectively** and not as much of an expansion of life products.
 - **Broadening** product types

1/3 of products launched since 2011 included some **health** coverage, and another **20%** contained some form of **property protection**.

Source: The Landscape of Africa 2015 Preliminary Briefing Note, (McCord, Biese of MIC), MIN, Munich Re



Product trends - LAC

- Bundled Products: Approx. 50% of the microinsurance products are sold as bundled products:
 - Life and Accident
 - Health and Life
- The primary products are commonly credit life and term life covers
- Add-ons or riders are others like PA, health, or other types of life covers. Supplemental health is typically **critical illness** and **hospital cash**
- LAC New product growth: 1/3 offer some form of **health**, 13% offer a form of **property** coverage (same trend as Africa).



Source: McCord and Biese. The Landscape of Microinsurance in Latin America and the Caribbean (2015), Microinsurance Network

Global examples/trends

- Funeral Insurance: Offered in Haiti through MFIs
- Credit Life: Enhanced credit life – lots of potential here!
 - What is enhanced credit life?
- Property/disaster
 - Caribbean context: People are more apt to build concrete houses so is disaster property insurance less of an issue except for agriculture?
 - Weather Indexed
 - Non indexed – like in Philippines- simpler product
 - Agriculture

Global examples/trends

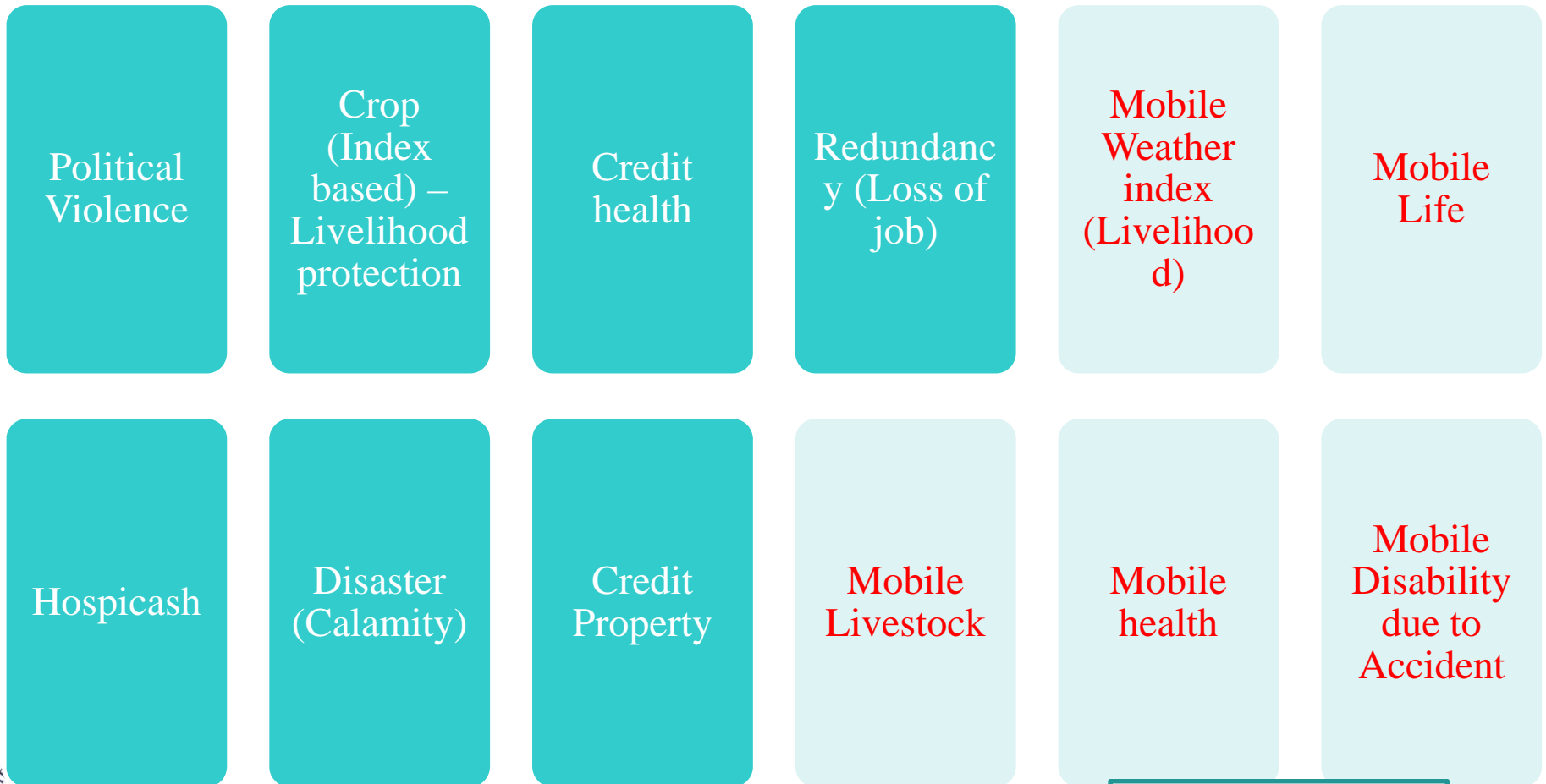
- Health
 - Fill the gaps of state insurance
 - Hospital cash
 - Disability- Pioneer Life in Philippines renamed its hospital cash product as disability insurance! Tremendous success!
 - Critical illness
- Mobile – regulations for mobile insurance, Mobile money
- Insurance for Migrants
- Use of remittance



Trends in innovation

Source1: Microinsurance Paper No. 26: Mobile Phones and Microinsurance (Nov2013), Prashad, Saunders, Dalal; ILO;
Source2: <http://www.bimamobile.com/our-services/payg-insurance/> **Source3:** <http://www.microensure.com/products-multiriskproducts.asp>

Innovative insurance Product type examples:



mobile

Thank you!

