Micro Insurance
Does it make Business Sense?
The Capitalist’s Approach

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Agenda

1. Rationale for pursuing Micro Insurance
2. The business case
3. Barriers to succeeding in Micro Insurance
4. Boosting your chances of success
5. PRE (Traditional approach)
6. Product Design and Pricing
7. Underwrite? Or Price for “It”? 
8. Two Scenarios
Rationale for pursuing Micro Insurance

• Existing markets
  • Well covered and growing slowly
  • Fierce competition – leading to low margins
  • Increasing pressure from other financial services

• Potential micro insurance markets
  • Often no formal financial services products
  • Low or no competition – i.e. High margins possible
  • Ability to sustain margins and profits for longer durations
  • Growth occurs naturally – and your products can accelerate it
The business case

- Significant entry cost / investment
- High margins and return on investment possible
- Risks exist and significant uncertainty about extent of success
- No uncertainty about potential
- Funding available
Barriers to succeeding in micro insurance

• No or negative trust in insurers
• Regulations
  • Distribution – criteria for agents / sales people
  • Documentation requirements
• “Traditional” views of experts from developed markets
  • Actuaries, lawyers, doctors and underwriters – included
• Lack of local and practical knowledge about the market
• Premium collection
Boosting your chances of success

• Do your homework:
  • Realise your own limitations in understanding the market (an expert in an established market is still a novice in a new market)
  • Be humble and spend time on the ground in the market (rather than more time with the Excel sheet)
  • Understanding your distribution model is key
  • Premium collection will make or break the venture
  • Understand the distribution and admin cost – don’t just model them
  • Best solution for managing costs and anti-selection: Volume!
Beware of sending the wrong message
PRE (traditional approach)

- Policyholders’ Reasonable Expectations
  - What is the role of any insurer in a society?
  - To pay claims! (If you are perceived not to pay claims, you are likely to have no trust in your market)
  - The insurer must pay all claims for events that clients think they are covered for.
    - Obligation on insurer to ensure that client is under the right impression
    - Don’t hide behind contracts or wording
  - Beware of:
    - Exclusions (especially declaration of good health)
    - Resetting waiting periods
Product design and Pricing

• Simple Products only
  • Not simple for an actuary! But simple for a client
  • Product described in 3 sentences:
    • We pay ........ (e.g. When you die)
    • We don’t pay ...... (e.g. Within the first 6 months for natural causes)
    • You pay ..... (e.g. Your premium every month before the due date)

• No underwriting and no exclusions (if at all possible)

• Simple clear documentation – no “normal” insurance terms
  • “Covered until the policy anniversary preceding the 65th birthday”

• High uncertainty – so use high margins
Underwrite? Or Price for “it”.

- Micro-insurance
  - Automatic assumption of price sensitivity
    - But market might be more quality focussed (Funeral insurance in SA)
- Underwriting can reduce price, but often is a barrier to sales and reduces trust in the insurer.
- Underwriting often discourages good risks and bad risks

- Understand “Practical” moral hazard
  - If you were diagnosed with a terminal disease – would you take out cover immediately?
  - How about if it was an extended family member, where you would incur costs if they die?
- A lack of volume likely to be more fatal, than higher than expected claims.
Scenario 1 – Spiral of Death

• Inadequate margins -> unknowns popped up after pricing

• Inadequate volume -> underwriting, pricing or distribution

• Insurer starts to incur losses and takes action
  
  • Increase premiums
  
  • Tighten claims procedures
  
  • Tightening spend on distribution and servicing
  
  • Clients unhappy -> increased distrust
  
  • Worsen the position
  
  • Insurer leaves the market
  
  • For years the perceptions and trust in the market will make re-entry extremely difficult
Scenario 2 – Birth of an Industry

- High margins / high volume -> insurer tastes success
- Expand distribution and penetration of market
- High margins attract competitors
  - Market innovation
  - Lower premiums
  - Greater penetration
- Clients satisfied due to growing understanding and growing presence of insurance.
- Market matures – more financial services follow
Questions / Comments?

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