



# Making Micro-insurance Work

Scale2Save Learning Paper

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**This learning paper forms part of the learning series featuring the experience of Scale2Save programme partners when developing financial products and services designed for low-income customers. It was written by Scale2Save Local Technical Specialist Agnès Fall with support from the Savings Learning Lab at Itad.**

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## **Glossary**

- FSP Financial service provider
- MFI Microfinance institution
- MPI My Pikin & I
- NGO Non-governmental organization
- UNCDF United Nations Capital Development Fund
- WSBI World Savings and Retail Banking Institute
- WWBG Women's World Banking Ghana

# Introduction

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“Insurance by itself will not end poverty but is essential to risk management. Affordable, accessible and inclusive insurance can make sure no one is left behind - reducing poverty and hunger, whilst boosting good health and well-being, promoting gender equality, decent work and economic growth and climate action”.<sup>1</sup>

This paper aims to support learning on microinsurance in Africa by giving an overview of the sector and presenting examples on how to successfully overcome challenges related to the uptake of microinsurance while also taking into account future hurdles related to Covid-19 and its impact.

Microinsurance encompasses insurance products that protect against shocks faced by under-served, low-income populations in developing countries. These products are provided in exchange for regular premium payments proportionate to their incomes, which take into account irregular income flows. Microinsurers increasingly tailor their products, policies and delivery channels to the needs of the poor. Policies are often written in simple terms to include a variety of options such as licensed insurers, health care providers, community-based organisations, microfinance institutions and NGOs. In addition, mobile insurance has become increasingly important to reach remote customers.<sup>2</sup>

While we observe growing demand and access to formal financial services such as bank accounts, mobile money and credit, the demand for formal insurance remains low despite the ‘micro-insurance revolution’ in the past decade.<sup>3</sup> A survey across 16 developing countries in Asia and Africa by United Nations Capital Development Fund (UNCDF) and the London School of Economics (LSE) shows that only 16.3% of the adults have access to any formal insurance. Large variations exist across samples.<sup>4</sup> In Africa the following is clear: the microinsurance coverage ratio is at 5.4%, peaking at 29,6% in Ghana; the microinsurance life coverage ratio is at 46,4%; whereas the microinsurance health coverage ratio is only at 8,4% for the entire African population. In terms of technology used in Africa, 66% of microinsurers use mobile phones for customer service; 24% use special software in the premium selection process and 72% of microinsurers are still using paper forms in the claims payment process.<sup>5</sup>

1 Microinsurance Network, 2018b

2 The Center for Insurance Policy and Research, 2020

3 UNCDF, 2020

4 UNCDF, 2020

5 Statista, 2019

# Challenges affecting the uptake of microinsurance

Research shows that challenges around insurance uptake depend on customer demand and insurer supply, including their product offer and accessibility. According to MicroEnsure, drivers of microinsurance penetration include the **business model**, the **product and its packaging**, **operational delivery** as well as **distribution channels**.

## Costs and terms

Due to low levels of financial education and underestimation of losses, low-income people may undervalue microinsurance while only seeing the cost. This is aggravated for insurance coverage that does not offer instant gratification, such as life policies. In contrast, health insurance provides instant relief and thus holds a higher level of acceptance by low-income people<sup>6</sup>.

Despite benefit from having insurance coverage, low-income people may place higher priority on day-to-day expenses than the value proposition offered within insurance coverage. That pressure compounds itself due to not only low overall income, but a dissonance created by highly seasonal and unpredictable income levels. Effort must be made to make premia affordable to lighten their weight on household budgets. This leads to tension: however, while customers demand low-cost offerings, traditional insurers often face high operation costs due to the need for extensive infrastructures. Thus, for business cases to be viable, they either require high volumes or must work with lower operation costs.

Employing digital solutions provides opportunities to reduce costs and reach more customers. Those solutions include digital agents and servicing,<sup>7</sup> as well as partnerships with mobile money providers, MFIs or other operators that may have access to the customers<sup>8</sup>. Another option could be to bundle insurance with other financial products, such as savings accounts that allow customers to remain liquid throughout the year and build up savings and financial literacy. By doing so, insurance providers can receive the premium payment once available.<sup>9</sup> Box 1 gives an example of this.

### Box 1: Example of how savings can promote insurance<sup>10</sup>

Women's World Banking Ghana (WWBG) developed, in partnership with MicroEnsure, an insurance product in Ghana that provides benefits in line with savings growth. A savings balance of GH¢100 (US\$17) covers the life insurance of the depositor. For a savings amount of at least GH¢ 200, the spouse and a child receive coverage too. This offer led to a tripling in savings deposits of less than US\$25 within a five-month period across seven branches.

6 Scale2Save, MicroEnsure, 2020

7 Cenfri, 2017

8 Scale2Save, MicroEnsure, 2020

9 Matul, 2015

10 Scale2Save, MicroEnsure, 2020

## Consumer perception challenges

Consumer demand depends on trust in the insurance, liquidity and behavioural constraints, as well as the quality of the value proposition of the insurance product.<sup>11</sup> Research has found low-income people more likely to have formal insurance when formally employed and earning higher incomes. In contrast, demographic characteristics such as age, household size or primary education hold no effect after controlling for selection bias, such as lack of supply in certain areas that might correlate with demographics.<sup>12</sup>

One challenge for microinsurers to drive insurance uptake stems from consumers who may underestimate certain losses, such as crop failure, and consequently undervalue insurances<sup>13</sup>. Similarly, alternative recovery sources often available to cover certain shocks, such as post-disaster aid or community support<sup>14</sup>, makes it more difficult to convince potential consumers of the value of insurance. In particular, swaying people towards insurance faces roadblocks if consumers hold low awareness and financial literacy levels and a generally negative perception of insurance products.

## Product design challenges

Standard products offered by traditional insurers sometimes fall short in their design to fulfil the needs of this target segment, both in their structuring or cost. Low-income consumers require products that cover assets that may not be covered by traditional insurance products, such as livestock<sup>15</sup>, or support them to overcome a shock quickly, as described in the example in Box 2. Relatedly, since low-income households often have several risks at medium probability at once, it may be beneficial for insurance products that cover multiple risks together. Those products prove harder to administer for the insurer, however, and require a better understanding of the complexities involved by the customer<sup>16</sup>.

### Box 2: Example of an FSP taking over the verification and payment of claims

Without any savings, farmers that fall ill in Kenya must seek funding before being able to go to a hospital, a process taking them away from their income-generating work. An insurance solution developed by One Acre Fund and MicroEnsure provides farmers with US\$50 upfront for their hospitalization, thereby eliminating the non-working time of searching for funding and ultimately boosting farmers' productivity.<sup>17</sup> For that purpose, the MFI worked with the regulator to allow for the verification and payment of claims on behalf of the insurer.

## Process related challenges

In addition to costs, factors like subscription, claims declaration and payment processes hamper insurance uptake. From the customer side, these processes require paperwork that may be difficult to gather, such as death certificates or proof of sickness. Some FSPs<sup>18</sup> are supporting customers in getting their claims prepared or even providing advances on insurance coverage in order to help customers overcome waiting times and cashflow constraints that might be linked to these. From the insurers and/or partners side, time consuming data collection and input lead to delays in final claim payment delivery. Further, the quality of infrastructures – such as roads – and climate can also create operational challenges that lead to time-intensive and costly processes.<sup>19</sup>

While claims on life and funeral insurances have a median turnaround of only two days, property claims require 60 days to be processed in Africa. Funeral and life insurance product claims most likely face rejection due to missing documentation, claims from relatives not covered or policy misunderstandings. Least-rejected are crop and livestock claims due to easier claims verification thanks, for example, to data on weather.<sup>20</sup>

11 Matul, 2015

12 UNCDF, 2020

13 Matul, 2015

14 UNCDF, 2020

15 Cenfri, 2017

16 Matul, 2015

17 Scale2Save, MicroEnsure, 2020

18 BRAC Uganda Bank Limited (BUBL)

19 Matul, 2015

20 Microinsurance Network, 2018a

Unsupportive regulatory frameworks often aggravate the problems of operational processes by lacking clear and transparent regulations, thereby making private sector involvement and scaling up of insurance schemes even more difficult.<sup>21</sup>

All these bottlenecks strangle processing time and cost, eventually stifling customers' appetite for these products and their perceived value.

## Partnership distribution channels challenges

Insurers shy away from a direct selling model for microinsurance due to cost pressures and the need to reach enough scale. Partnerships can help, especially doing so with organizations that take the distribution role.

Aside from insurance brokers and agents, microfinance institutions continue to play a big part in microinsurance distribution. Some channels, including mobile and digital platforms, are growing in importance and can potentially help access customers that are beyond current reach.<sup>22</sup> However, in order to remain cost-effective, insurance providers must decide whether to expand their customer reach either through digital transformation or through an expansion of their agent network.<sup>23</sup>

## Impact of Covid-19

There appear two ways in which the Covid-19 pandemic may impact insurers in emerging and developing markets. First, the expected fall in number of claims, in particular under motor insurance, with fewer pay-outs to make. Second, insurers will see fewer sales of new policies as a consequence of widespread lockdowns. Further, lockdowns will require insurers to rethink their current operations due to a lack of technological infrastructure that makes difficult remote working for agents. At the same time, consumers are used to agents and may be reluctant to switch to digital options if available.<sup>24</sup>

Regardless of these immediate challenges for insurers, Covid-19 may also present opportunities. Firstly, virus outbreak impact on mortality, health as well as through the lockdowns on unemployment brings to the forefront the value of being insured against unforeseen shocks and the potential insurance holds to manage these risks. This may ultimately raise demand for insurance coverage. Secondly, Covid-19 may foster digitalization of insurance products as the insured are forced to interact digitally with their insurers, which may build trust in digital solutions. Similarly, Covid-19 provides compelling pressure for insurance providers to invest in more digital value chains, including digital sales and digital claims verification.<sup>25</sup>

21 UNCDF, 2020

22 Microinsurance Network, 2018a

23 Cenfri, 2020

24 Beyers et al., 2020

25 Gray and Schlemmer, 2020

# Opportunities and solutions to increasing microinsurance uptake

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There are several ways to tackle the challenges described above and thereby to spur microinsurance uptake by low-income people. To improve the understanding level of insurance products, microinsurance providers should place a strong emphasis on customer education that provides information about the product as well as the processes involved. That means deploying dedicated sales forces, roving agents and/or at call centres using simplified and pictorial communication and awareness campaigns. Similarly, remind the insured about their insurance product to prevent them from gradually forgetting over time about their insurance coverage.

To generally create better understanding of the benefits of insurance, insurers can offer free value-added services. That could include health-check-ups with health insurance<sup>26</sup> or offer a scholarship for children's education as in the LAPO case study featured in the next chapter. Additional strategies could include bundling insurance with other financial products, providing incentives such as lower initial costs as well as innovative partnerships as described previously in Box 1 and Box 2.

Further, the products have to be tailored to low-income consumer needs and risks, as well as to cultural context. Adapt the products considering the culture and beliefs of the target and the way the community works: go for "community" instead of "individual". This also includes the product design that offers affordable premia or premia that can be spread over time to lessen the financial burden on clients. Insurers have to monitor and survey the markets regularly to be able to identify and fill any gaps in delivery.

On processes involved in microinsurances, an easy and streamlined enrolment process matters, as do claims filing without requiring a raft of documents and proof. The insurer would see faster claims processing and shorter payment turnaround. Partnerships and digitalization can help to strengthen the distribution network and simplify processes while lowering costs. The Advans case study gives an example of just how.



# Case studies from Scale2Save partners

## Micro life insurance - Advans, Côte d'Ivoire

Advans International consultants analyzed farmers' needs with regards to insurance through interviews conducted between 2016 and 2018 with cooperatives, farmers and field agents. Feedback analysed pinpointed two main needs: health insurance and life insurance. Once identified, these needs required solutions. Advans began talks with potential partners. They started working with Sunu Insurance to design a life insurance product adapted to the specific needs of the market, namely farmers living with several members in one household. In addition, the product would need to take into account case of death, as this group finds it difficult to obtain a proper health certificate.

The final product met five main objectives:

- Provide farmers in Advans clients' cooperatives the chance to benefit from life insurance.
- Enable families to have a complementary revenue in the event of a farmer's death.
- Enable farmers to protect their family.
- Widen the range of financial products offered to farmers.
- Broaden financial inclusion.

Based on those goals, Sunu and Advans designed a life insurance product called **Agrissur**. The policy provides two specific options:

1. **YFO** (meaning good luck in the Dioula local language): A product that covers the farmer and 5 other persons (wife/husband and 4 children) at an annual cost of US\$20.
2. **YFO +**: Based on the YFO product with two additional persons who are the farmer's direct ascendants, at an annual cost of US\$35.

In each case, after the farmer's death, the family will receive FCFA350,000 (US\$588) to organize the funeral and FCFA650,000 (US\$1,092) three months after. This sum allows the family to support themselves after the death of the head of the family. Additionally, in the case of another family member's death, the farmer receives FCFA 150,000 (US\$252).

Farmers seem to appreciate Agrissur. In particular, they like the simplicity of the process to subscribe and make a claim. Advans mobile staff make the subscriptions in the field for Advans clients by filling in a digital data sheet and a paper contract with simple information on the farmer. The only required document being a valid ID card.



For claims, Sunu and Advans provide the cooperative and the farmer with a template of a village certificate. That document can be signed by the chief of the village and the cooperative to certify the death of a person without going through the official national administration. Some farmers expressed surprise about how fast they receive their compensation following the event, with average time being 10 days after receiving the documents. Process simplicity forms a key product aspect.

The second key success factor: positive collaboration between Sunu and Advans. The two partners aligned their vision and strategy for the product. Advans and Sunu organized field visits to train Advans staff as well as farmers. The use of imagery also proved effective in presenting the product and its benefits to a population with overall low awareness of insurance.



Thanks to Sunu's support, Advans staff learned how to present the product to farmers in a clear manner as insurance was not initially part of their sales portfolio.

Regarding the distribution model, Advans agricultural roving staff sells the product to farmers during presentations.

Farmers, when opening their account, can also subscribe to the insurance product on the same day. The roving staff collects their personal information, fills in the insurance subscription form and encourages the farmers to make a deposit; the subscription is then validated at head office level.

Advans is planning to expand its distribution model to incorporate other channels; the first one potentially being the Advans Point agency banking network.



### Existing challenges

Positive results followed as farmers signed up to YFO and YFO+. There remains a gap to fill, however, between signing up and subscribing to the service, i.e. paying the premium. Packaging insurance and savings may be a possibility to fill this gap, thus facilitating premium payment. Advans currently tackles this by testing out a new package that links insurance and digital school loans to boost insurance uptake. Insurance premium collection before loan disbursement is one way to ensure farmers fully subscribe, by completing the form and paying the premium.

The product has achieved in the past year some 1,000 subscriptions. To scale it up, however, Advans would like to propose some improvements on product features and to test innovative models to grow insurance product sales using their third-party agent network as a seller.

### What's next: Scale up to 10,000 farmers

Advans aims to scale YFO and YFO+ up to reach 10,000 farmers while continuing to improve the product and develop partnerships with agribusinesses. Although Covid-19 has not impacted uptake so far, Advans sees some cooperatives nudging their farmers to subscribe as part of the Advans financial inclusion programme.

## Savings bundled with micro – fire, burglary & health insurance – LAPO Microfinance Bank, Nigeria

To increase insurance uptake and incentivise people to save, LAPO Microfinance Bank in Nigeria bundled insurance with one of their signature products: 'My Pikin & I' (MPI). A savings account among the bank's deposit products, it targets parents who want to invest in their children's future. It gives clients the opportunity to save and earn attractive interest, get free insurance for the first year – subject to qualification criteria – and get a chance for their child or ward to be nominated for an education scholarship.

### Basic features of the MPI product

- ₦200 minimum account opening amount.
- 4.02% per annum interest rate on savings.
- Meant for children or dependents below 18 years of age. Account opened in the child's name with the parent or guardian as the operator. The insurance cover is on the operator – either the parent or guardian.
- Minimum monthly accumulated savings of ₦5,000.
- Tenure: 12 months.
- Frequency of savings: Daily, weekly and monthly.
- Available to all new and existing clients – group and individual.

## Product milestones/benefits

Stages	Tenure	Monthly contribution	Total contribution	Benefit to clients
1st stage	1st – 3rd month	₦5,000.00	₦15,000.00	LAPO pays insurance premium ₦450 that covers for fire, burglary and health
2nd stage	4th – 6th month	₦15,000.00	₦45,000.00	Nominate his/her child or any other child/dependent in secondary school to take LAPO Scholarship exams
3rd stage	7th – 12th month	₦15,000.00	₦90,000.00	Depositor receives an additional 2% interest on savings

Currently, LAPO has more than 50,000 MPI accounts, of which about 4,000 qualified for the insurance scheme.

This product offer has been made possible through different partnerships with the World Savings and Retail Banking Institute (WSBI) who supports product development, marketing and communications as well as training related to the distribution channel. WSBI also provides change management support through experienced coaches for a more customer centric approach to product design and delivery.

Orange Insurance Broker Limited also provides brokerage services such as price negotiation, claims returns between LAPO and the insurers of the product.

To share the risk, LAPO works with two insurance companies that process policy for each qualified client and process/pay claims when they arise: GOXI Microinsurance and Lasaco Assurance PLC.

For the 'My Pikin and I' product, LAPO uses its distribution channels which include roving and stationary agents as well as branches. There are currently over 500 LAPO branches and over 700 active agents (both roving and stationary).

## Existing challenges

1. Life insurance as a product usually becomes active upon the death of the policy holder. This did not appeal to people due to culture or religious beliefs in Nigeria. To address this, LAPO decided to change the insurance policy weaved into the MPI product from life insurance to a combination of fire, burglary and disability (by accident) insurance to change the clients' perception of the insurance. This change led to an uptick in the monthly average number of clients that qualified for the insurance from 196 prior to the tweak to 274 afterwards. This recorded increase in monthly average trend continued despite the disruption of business operations brought by the pandemic.
2. During the pilot period, the initial insurer pulled out as they wanted to review the premium upwards or reduce the benefits. LAPO was forced to switch insurance providers to ones that were willing to work with lower premiums. For many people, the price of insurance proves a challenge. To address this hurdle, insurance companies must look beyond profitability first and try to get the trust of people to change the narrative that insurance works.
3. Communication of product features in print – both flyer and poster designs – could not effectively tell a prospective client why they need an insurance policy, even if it was free and its benefit in naira value. This feedback became clearer after a survey by IDEO.org. LAPO implemented recommendations from the survey report and distilled the bulky information, making it more precise while addressing each target group in separate flier design.

As the pandemic produced a devastating effect on all sectors of the economy, the MPI product was not spared. Savings capacity plummeted, leading to difficulty in onboarding potential clients. It also led to distortions in the milestone set up for clients' benefits and a total drop in general product performance. As the lockdown measures eased, however, business gradually improved, as did clients' uptake of the product.

## What's next?

LAPO looks to continue sensitizing people through various means of marketing and communication on the importance of savings as well as insurance – a resilience mechanism to shocks. Insurance bundled for free with a savings product will give the opportunity for people to experience the benefit of insurance.

Current strategies adopted by LAPO to sensitize people about the product and its benefits include:

- Production of 'My Pikin & I' savings passbook with the product benefits boldly inscribed on all pages to help create client's consciousness of the benefits.
- Redesigning marketing fliers, posters and roll up banners with clear features and benefits of the product.
- Digital and social media campaign efforts to help create awareness and client engagement.
- SMS "blast" to qualified clients.
- Word-of-mouth marketing by well-trained staff and agents.
- Training agents on product features and benefits through animated videos to aid sales and communication.
- Refresher training for branch staff to further enhance proper communication of product benefits to clients.
- Market activation and road shows to drive direct sales through all sales platforms. This has been put on hold, however, due to the pandemic.

LAPO will also work on simplifying the internal claims processes even more so that clients avoid getting frustrated and eventually giving up when unforeseen negative events occur.

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