

Technologies in non-traditional insurance markets



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Ms Jody Delichte, Chief Marketing Officer of Inclusivity Solutions, says: “*microinsurance in emerging markets is by its very nature innovative*”¹. I cannot agree more on this statement. When one discovers microinsurance, one gets immediately curious. Providing insurance to low-income populations is indeed a very appealing concept. Everyone can easily imagine the potential social impact of protecting vulnerable people when facing adverse events. And enthusiasm grows when one gets interested in the way microinsurance intends to address the challenges it faces. How can it possibly achieve its targets? Containing costs, educating, bringing trust, reaching remote populations, etc.?

While facing similar issues as traditional insurance, microinsurance cannot follow exactly the same practices as it would fail in proving simple and cheap solutions to address the market’s needs. One idea that emerges from reflections around the topic is the use of technology.

As our world is being overwhelmed by digital innovations, traditional insurance stakeholders as well as microinsurance contributors have started to think about how to leverage on this. It seems to be a necessity for both businesses. However, coming back to Ms Delichte’s opinion, microinsurance is – by definition – a newer approach, thus more keen to changes and to offer more readily available services.

This is why one can wonder... who will be the first to reach the technological arrival line?



¹ For more information : <http://www.microinsurancenet.org/community/blog/insights-and-perspectives/microinsurance-insurtech-and-there-more-come>

CONTEXT AND CHALLENGES FOR MICROINSURANCE

1- Context

Creating a virtuous circle: this is what microinsurance is about.

In fact, 'Microinsurance' refers to contracts that guarantee payments to low-income people in case of a claim. Thus it does follow the same principles as 'traditional insurance' but it aims at covering people with low earnings. Without insurance, poorer populations are more vulnerable in front of an adverse event (e.g. accident, illness, natural disasters, etc.) which makes it more difficult for them to get back on their feet. So low-income people need even more insurance. Not only to prevent themselves from revenue reductions but also to encourage entrepreneurship and financial inclusion. For example, if small agricultural businesses were covered in case of bad weather conditions, people would be less reluctant to invest and expand their activities.

2- Challenges

Having said that, the question is: what is the recipe to achieve such an appetizing target? First of all, prices need to be as low as possible to be affordable for insured people, but at the same time high enough to cover risk. Finding ways to reduce costs is challenging and so is pricing an insurance product with scarce data. Secondly, microinsurance's general approach needs to be simple. Otherwise the policies won't

be understood nor trusted or useful. This is why education also matters a lot for microinsurance to be efficient and for a valuable customer experience. Finally, microinsurance needs to be accessible. If not it won't be able to reach low-income populations. For all these reasons technology emerges as a relevant solution to automate processes, facilitate transactions, inform and reduce costs.



DIGITAL INITIATIVES ARE SPREADING...

1- The example of mobile technology



According to a study from the Microinsurance Network and Munich Re Foundation², more than 40 million people in Asia have benefited from microinsurance protection through their mobile phones.

As low-income market would never afford insurance coverage if premium amounts were not reasonable, one strategy is to reach scale through mass market distribution. As a consequence, in

several emerging countries, partnerships have been made between TSPs (Technical Service Providers) and MNOs (Mobile Network Operators). As an illustration, the BIMA Company is a successful example of TSP that uses mobile technology to get high penetration rates in emerging countries. In a recent interview for *InsurTech Bytes*³, Nicola Smith, Head of Research at BIMA, explained that it now operates in sixteen

countries, for almost 30 million customers, getting 500,000 new subscribers every month! Among these clients, 90% of them were buying insurance for the first time. It shows that costs were enough attractive for reaching low-income markets. This could never have been achieved without the use of mobile technology as a distribution channel.

2- Agricultural insurance



In emerging markets, agriculture can represent a very important part of the local economy. But insuring this kind of business with a traditional approach seems too expensive for microinsurance. As a consequence, microinsurance stakeholders are looking at innovative solutions involving technology. This is the case for ACRE⁴ Africa, a service provider company which aims to give more confidence to smallholder farmers through insurance coverage against adverse weather conditions. One of their products is an “index insurance product” that uses

satellite or weather stations data such as rainfall estimates. Instead of performing expensive on-site visits to assess the damages and costs, ACRE Africa leverages on this technology to estimate the field experience, provide more customized coverage and be more cost-effective. ACRE Africa has cumulatively insured 1,000,000 customers until 2016.

Another recent example is the use of satellite data by the state government in India to identify damages due to bad weather conditions and provide farmers with compensation⁵.

3- Blockchain and smart contracts



One disruptive technology that interests more and more insurance stakeholders is blockchain. This innovation allows performing transactions of digital assets without the need of a middle-man. For inclusive insurance this means potentially reducing costs while reinforcing the protection of transactions thanks to a secure platform.

Going further in this consideration, the concept of “smart contracts” comes across to define agreements (e.g. insurance policies) that are converted into code in order to be executed by computers. One recurrent

example mentioned by experts is the case of a flight cancellation: with smart contracts, insured people can get compensation immediately. Indeed in this case human intervention is no more required and costs should be reduced. Also, with smart contracts, processes could be simplified and payments should be facilitated. This road to “computerization” could lead to complete automation of processes such as policy underwriting or claims treatment.

²For more information: http://www.microinsurancenetowork.org/sites/default/files/Insights%20on%20MNO%20as%20distribution%20channel%20for%20MI%20in%20Asia_2016.pdf

³ <https://soundcloud.com/insurtechbytes> : episode “#8: Insurance for All? The InsurTech Opportunity”

⁴ Agriculture and Climate Risk Enterprise Ltd.

⁵ For more information: <https://snrd-asia.org/press-release-satellite-technology-expedites-insurance-payouts-in-indias-crop-insurance-programme/>

...BUT THERE ARE STILL SOME OBSTACLES NOT TO BE NEGLECTED

1- Technological costs

Even if technology aims at reducing costs, the deployment of innovative techniques can require significant investment in research and development. Not surprisingly, the successful mobile-insurance startup BIMA is not yet profitable in all markets

where it operates but in four of them⁶, even if it plans to reach the scale in all of them. In some cases, as non-conventional insurance markets have low profit

margins the implementation of heavy technological structures may not be possible without subsidies.

2- Accessibility

Another obstacle to these innovative solutions is that low-income populations might not have access to the required technology. In some remote areas, it can indeed be difficult to encourage people who are not digitally aware, to purchase insurance contracts through web/mobile platforms. Even if solutions

can be found to allow people accessing these technologies, building trust could be challenging. One can even wonder if it is possible to adequately inform consumers considering non-face-to-face interactions.

3- Regulation

When introducing technologies in the insurance process, additional regulations cross insurance legislation: telecom, mobile, e-commerce, digital financial services. This makes it even more difficult for insurance supervisors to regulate the industry. So far it does not seem that regulatory plans include

technological risks into consideration yet. Indeed, regarding mobile-insurance, a recent survey from the A2ii (Access to Insurance Initiative) reports that less than 20% of surveyed supervisors intend to take initiatives to regulate mobile-insurance⁷.

CONCLUSION

Very recently, Mr. Oliver Bäte, CEO of Allianz SE said: "While traditional markets, such as Europe, are struggling with their digital transformation process, Africa is digital by nature."⁸

Actually, the use of technological solutions in microinsurance and in emerging markets is already a reality. As shown above, we can observe lots of initiatives for digitalizing this particular industry, as most of its challenges could not be addressed without technology.

Nonetheless there are still obstacles such as: implementation costs, regulatory considerations, difficulties to bring trust. In this particular context it is even more important to ensure a responsible market conduct and to protect consumers. Indeed,

more vulnerability should encourage even more adequate information and understanding of policies.

Despite these constraints, several big insurance players such as AXA have initiated pilot digital programmes in emerging markets to gain experience. So... who will cross the technological line first?

Even with statistical skills, actuaries cannot predict the future. But one possible reply to this question could be "both". As traditional and non-traditional insurance markets have

common interests, they could run this "race" together, learning from each other.



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⁸<http://www.agcs.allianz.com/global-offices/south-africa/news-press-africa/africa-poised-to-become-digital-insurance-leader-says-allianz-ceo-oliver-bate/>