Ten Years Gone, Ten Years to Go: Taking Inclusive Insurance from Adolescence to Adulthood

Inclusive insurance's unique moment to grow

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For the insurance industry, 2008 is more often reminiscent of the bailout of AIG than of new beginnings. However, 2008 also launched an unexpected wave of creative destruction. This essay series not only celebrates the 10-year work of the Center for Financial Inclusion, but also several pioneers that strive to make insurance inclusive for all: the ILO's Impact Insurance Facility, the Centre for Financial Regulation and Inclusion and the Microinsurance Network—all of which began a decade ago.

As a more recent settler on the inclusive insurance planet – although almost three years have flown by – others may keep the flame, but I would like to offer a personal opinion on the past decade of innovation, and my perspectives into what more needs to happen to combine sustainable business and social impact for those who need insurance most.

Back in 2008, microfinance institutions predominantly distributed what was then called microinsurance. MFIs provided insurers with a readily available pool of clients for credit life insurance, which reimburses the outstanding loan amount in case of death or disability of the borrower.

This was the first era of inclusive insurance.

Accomplishments Since the Beginning

MicroEnsure, for instance, a specialist provider in which AXA holds a stake, built on this credit life model and now protects micro-borrowers against risks of accidents, hospitalization, and even fire, theft and natural catastrophes. Across the industry, new products flourished, often guided by frameworks such as the ILO's client value assessment tool (PACE: Product, Access, Cost and Experience) or the Microinsurance Centre's design principles (SUAVE: simplicity, understandability, accessibility, value and efficiency).

Beyond life and accident policies, which cover critical risks because of the severity of their impact on households, much attention has been given to health, where the frequency of events is significantly higher. The hospital cash product, a cover where the policyholder receives a predefined indemnity in case of hospitalization, independent of the reason for that hospitalisation or the actual costs incurred, is a brainchild of this wave of innovation. While it does not aim to provide comprehensive health cover, is a scalable combination of affordability and simplicity. There are no assessments of pre-existing conditions, waiting periods or co-pays – all features that are hard for first-time insurance buyers to understand.

Providers also made great strides in extending distribution strategies beyond microfinance institutions. Mobile network operators proved a cost-effective pathway to cover millions of previously uninsured people in Africa and Asia. In Ghana, for example, GSMA research found that 7 out of 10 customers preferred this channel over buying insurance from an insurer. This says a lot, even though experience has shown these tie-ups are not always sustainable, not least because of regulatory challenges impeding the use of airtime to pay for insurance premiums in many countries. MNOs are not the only innovative distribution channel: in South Africa you can buy funeral cover at your local supermarket, while ACRE Africa, and, more recently, Pula Advisors bundle insurance with bags of seeds for Kenyan farmers. The firm relies on mobile technology to geolocalize the insured crop. I even once bought a local newspaper in Mumbai and noticed that subscribing to it would get me a free personal accident policy.

Finally, processes are surely the most underrated innovation. Enrolling for insurance is historically complex, with many questions asked during underwiting, or with health checks. Today, however, API technology and experience now allows us to insure on the sole basis of a name and a phone number, In India, even just a fingerprint can provide the basis of a policy thanks to the India Stack and Aadhaar ecosystem. Claims intimation can be digitalized too, with documents submitted by WhatsApp or other messaging systems, which significantly reduces turnaround time. Pioneer in the Philippines took the decision that only the Head of Microinsurance could take the final decision to reject a claim, ensuring management focus on what is the moment of truth for first-time buyers: when they submit their first claim.

While many schemes failed, they have provided valuable experiences upon which success has been built. The overall picture is positive: ILO research showed that in 2016, 60 of the largest insurers in the world launched programs for low income and emerging segments, compared to only seven in 2005. This number will only grow in line with the demographic shift of billions towards the middle class. In 2025 the number of people in the consuming class, defined as those earning over US $10 (PPP basis) per day, will exceed the number still struggling to meet their most basic needs. I am proud to say that today, AXA is already protecting over 8 million emerging customers.

Now at the end of its adolescent years, the inclusive insurance industry is faced with a dichotomy. The shorter, easier path would be to stick to existing models, where insurance is largely mandatory for the client because it is tied to another good or service such as credit or airtime. This was a necessary first step to understand the market and build volume, but such programs are short-lived. Forcing products on clients does not build their insurance culture nor their will to renew them. The road to sustainability is longer and includes hardships. It is one which requires us to spin the traditional insurance model on its axis.

From Exclusive to Inclusive

Insurance traditionally manages the so-called “subprime” risks by using exclusions, waiting periods, and/or health checks, which are ill-adapted to first-time buyers who may not be aware of their health history. Some hospitalization policies sold to the emerging customer segment have 20 or 30 exclusions, drafted in “legalese” terms. If these clauses do not outright scare off new clients, they can certainly cause quite a negative perception in the community when they have not been well explained and a claim is rejected on their basis.

An example of this comes from our work with the IFC-World Bank to tailor insurance products to the needs of women. As part of this research we were shocked to see that around the world, including within our own entities, many policies have discriminatory terms, for example personal accidents policies which exclude maternity-related accidents from cover.

This philosophy of exclusion needs to be challenged. This is much easier said than done, and requires a real mindset shift in the way products are constructed. One of the ways AXA has been able to accelerate this shift is by taking our actuaries to the field during customer research so they can get as close as possible to customer realities. As an illustration, this has allowed us to limit the exclusions on our basic life, accidents and hospital cash policies to claims linked to crime, illegal activities and self-inflicted injuries. To work for the inclusive market, policies should be designed to be short and clear enough to fit in an SMS and written in layman’s terms.

From Value to Claimants to Value for All

Insurance is a low-touch business: contact points between the insurer and the insured are limited to premium collection, renewal and claims. But with low frequency risks such as life, accidents, hospitalizations or natural catastrophes, only a small percentage of clients will claim during the year. This is a very strong challenge for the industry: how can we convince customers to continue with coverage they have not gotten value from when these customers are counting every cent? Innovators such as Grameenphone, Telenor Health and MicroEnsure in Bangladesh addressed this conundrum by positioning insurance as one pillar of a broader digital health offering combining telemedicine, discounts in hospitals and pharmacies, and personalized health tips. The offering, called Tonic, enables a significantly higher share of customers to see tangible value from their purchases, and to be likely to renew them.

It is also a particularly interesting way to align interests between the insured and the insurer, as access to doctors and health tips reduce the likelihood of severe illnesses or at least speed up their diagnosis, which reduces the cost of health claims. Insurers need to switch from a role as payer to become a partner of their customers.

From Insurance to Holistic Protection

Insurance is an effective way to pool risk and compensate the misfortunes of the few with the fortunes of the many. But this is most effective against high severity, low frequency risks. Low-cost expenses that are almost certain to occur during the year, such as visits to a general practitioner or purchase of basic medicines, may not be suitable for insurance. The cost of administrating the insurance scheme, the risk of fraud, as well as the claims process burden for the client all challenge the suitability of insurance for managing these risks. It may be better value for money for customers to address them through other financial inclusion tools such as health savings or credit. Insurers can participate in creating better value bundles for the emerging customer segment.

In this regard, MicroEnsure partnered with clinics in East Africa to bundle hospital cash insurance covering overnight hospital stays with a microcredit facility that clients can immediately draw upon to pay for outpatient treatment or medicines. The goal was to address the cash constraints that often force clients to choose between proper lab exams and medicine, with an obvious impact on health outcomes. Although it proved difficult to crack the distribution model for the scheme, as the bundle remained complex for clinics staff to sell as a side activity, customer feedback was very positive, and the idea will undoubtedly be leveraged with more success elsewhere.

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Remaining Bottlenecks

These are some of the steps needed to get us from access to insurance to actual usage of insurance with durable impact on customers' lives. But beyond these changes in the value proposition design, other structural bottlenecks remain.

The first bottleneck is that inclusive insurance cannot happen on its own. Not only is insurance complementary to payments, credit and savings in improving resilience, as noted above, but the different branches of inclusive finance need each other to grow. Collecting tiny premiums in cash makes no economic sense, and making digital payments a reality will also drive insurance uptake. It is no wonder that Kenya, where mobile money is widespread, is so strong in innovative insurance schemes. Conversely, insurance takes some of the default risk away from microfinance institutions, helping credit flourish, and can also be used as an incentive to create a formal savings culture. In Ghana for instance, MicroEnsure partnered with microfinance banks to design a policy called Edusave, which rewarded savers with a free insurance covering children's educations costs in case of death of a parent. The sum insured was proportional to the amount saved, and this allowed to more than double customers' savings habit with the bank.

The second bottleneck lies in the hands of regulators. It is positive to see how much attention on insurance for the underserved has increased these past years, with specific, simplified regulatory frameworks appearing in over twenty countries, including Egypt, Peru and the Philippines. This owes a lot to the capacity building and best practices sharing work performed by the Access to Insurance Initiative (A2II), among others. But issues such as product approval remain considerable. In India, a new filing or even basic tweaks on small-ticket, plain vanilla products for emerging consumers can take months, hampering innovation in a field where decisions are made on a day-to-day basis and priorities often change while the product is being approved. Beyond product approval, rules on distribution should reflect the role played by innovative channels such as mobile network operators as well as mobile money providers. Across the board, paperless processes for enrollment and claims should be allowed and encouraged. Bringing together regulators and industry experts is the only way to progressively bridge the regulatory gap.

Last but not least, the question of last mile distribution remains central. Insurers will compete on their ability to work with new channels, but also to build upon existing ones in a more sustainable manner, combining boots on the ground for customer education with digital technology to reduce costs. Building insurance culture from scratch is a difficult process, and surveys show that up to 90 percent of clients who got insurance through mobile network operators never had a policy before.

Developing the culture requires adequately training frontline staff, using claims as a marketing tool, and leveraging influencers from local communities. I once met in a Ghanaian market a woman who claimed to be the “queen of the market”: she had seen the positive impact of insurance on merchants who had lost their shops to a fire, and after a discussion with our team, she said she would sign up the whole market to the product. And she delivered: the next day, after a speech she made to them, hundreds came forward to purchase the property scheme.

Much has been achieved in ten years. But the paradox is that despite all the players in this space – insurers, think tanks, NGOs, multilaterals, distributors, regulators – we are counting policyholders in millions instead of billions. Let us hope that the next decade will yield the necessary breakthroughs to take inclusive insurance from adolescence to adulthood.

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