Inclusive Insurance in National Financial Inclusion Strategies

Peter Wrede
Senior Financial Sector Specialist
World Bank
Agenda

• Why is insurance important for people, businesses and countries?

• Why is there so little insurance everywhere?

• How can NFIS make a difference?

• How can digital technology make a difference?
Why is insurance important for people, businesses and countries?
The many functions of insurance

- Risk transfer
- Productive risk taking
- Peace of mind
- Access to critical services

Household resilience

- Risk transfer
- Risk management
- Credit market development

Business (and government) resilience

- Mobilising capital
- Pooling capital
- Allocating capital
- Building institutions

Capital market development

Source: CENFRI, Adapted from Chamberlain, Coetzee and Carmargo: Funding the frontier: The link between inclusive insurance market, growth and poverty reduction in Africa, 2017
The little use of insurance – insurance premium

<table>
<thead>
<tr>
<th>Total Premium (in million USD)</th>
<th>2000</th>
<th>2010</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>thereof: Life Premium</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Life Premium</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accident and Health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rest of World</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>thereof: South Africa</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Morocco</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RDC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low Income Countries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower Middle Income Countries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper Middle Income Countries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Income Countries</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table Data**

- **2000**: 2,227,639, 4,474,788, 5,247,833
- **2010**: 2,330,024, 1,216,206, 1,457,392
- **2016**: 2,554,079, 1,457,392, 1,236,363

**South Africa**
- Low Income Countries: 28,115
- Lower Middle Income Countries: 32,705
- Upper Middle Income Countries: 57,719
- High Income Countries: 48,626

**Morocco**
- Low Income Countries: 964
- Lower Middle Income Countries: 73,641
- Upper Middle Income Countries: 2,583
- High Income Countries: 3,560

**Egypt**
- Low Income Countries: 645
- Lower Middle Income Countries: 1,886
- Upper Middle Income Countries: 1,875
- High Income Countries: 1,938

**Kenya**
- Low Income Countries: 274
- Lower Middle Income Countries: 983
- Upper Middle Income Countries: 48,626
- High Income Countries: 5,177,000

**RDC**
- Low Income Countries: 10
- Lower Middle Income Countries: 56
- Upper Middle Income Countries: 91
- High Income Countries: 51,500
The little use of insurance – insurance premium

<table>
<thead>
<tr>
<th>Total Premium (in million USD)</th>
<th>2000</th>
<th>2010</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2,227,639</td>
<td>4,474,788</td>
<td>5,247,833</td>
</tr>
<tr>
<td>thereof: Life Premium</td>
<td>61%</td>
<td>52%</td>
<td>49%</td>
</tr>
<tr>
<td>Non-Life Premium</td>
<td>30%</td>
<td>27%</td>
<td>28%</td>
</tr>
<tr>
<td>Accident and Health</td>
<td>10%</td>
<td>21%</td>
<td>24%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>99%</td>
<td>98%</td>
<td>99%</td>
</tr>
<tr>
<td>Africa</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>thereof: South Africa</td>
<td>86%</td>
<td>78%</td>
<td>69%</td>
</tr>
<tr>
<td>Morocco</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Egypt</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Kenya</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>RDC</td>
<td>0.03%</td>
<td>0.08%</td>
<td>0.13%</td>
</tr>
<tr>
<td>thereof: Low Income Countries</td>
<td>0.03%</td>
<td>0.04%</td>
<td>0.06%</td>
</tr>
<tr>
<td>Lower Middle Income Countries</td>
<td>1%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Upper Middle Income Countries</td>
<td>5%</td>
<td>10%</td>
<td>13%</td>
</tr>
<tr>
<td>High Income Countries</td>
<td>95%</td>
<td>87%</td>
<td>84%</td>
</tr>
</tbody>
</table>
The little use of insurance – insurance penetration
Insurance is not there for most people

- Around 80% of adults in developing economies have no access to insurance

- Most people in the world are uninsured
  - Because they are poor
  - Because they are remote
  - Because they don’t know about insurance
  - Because they don’t trust insurance / insurance providers

- Examples
  - Nigeria 2014: 2.25 million people insured out of 177.5 million population (1.2%)
  - Bangladesh 2015: 15.37 million insured out of 160.9 million population (9.6%)
  - Kyrgyz Republic 2015: 113 thousand insured out of 6 million (1.8%)

- Microinsurance coverage around the world
  - Africa: 62 million persons insured (5.4% of population)
  - Asia: 170 million persons insured (4.3% of population)
  - Latin America and Caribbean: 49 million persons insured (7.9% of population)
What NFIS can do to increase use of insurance

• Create awareness for the issue
• Galvanize stakeholders
• Provide a baseline
• Define suitable objectives
• Conduct appropriate interventions
• Measure
• Report
Create awareness for the issue

- Microinsurance, inclusive insurance and mass marketed insurance

Source: Maya Declaration: Commitments you can bank on (ppt by AFI, 2014)
Galvanize stakeholders

- Insurers
- Regulators
- Other government agencies
- Donors
- Intermediaries
- Technical Service Providers
- Payment channels
- Target market representatives
- Consumer protection bodies
- The media
Source: Cenfri, Tanzania Access to Insurance Diagnostic
Provide a baseline

- Diagnosis of
  - Current situation
  - Current needs
  - Attitudes
  - Barriers
  - Potential opportunities
- Formal vs informal
- Put it in perspective: how is it elsewhere?
Provide a baseline - how is it elsewhere?

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>34%</td>
</tr>
<tr>
<td>Botswana</td>
<td>31%</td>
</tr>
<tr>
<td>Swaziland</td>
<td>17.2%</td>
</tr>
<tr>
<td>Kenya</td>
<td>6.8%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>6.3%</td>
</tr>
<tr>
<td>Zambia</td>
<td>3.9%</td>
</tr>
<tr>
<td>Uganda</td>
<td>3.0%</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2.3%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.96%</td>
</tr>
</tbody>
</table>

Figure 2. Percentage of adults with formal cover in Tanzania in regional perspective

Source: Cenfri, Tanzania Access to Insurance Diagnostic
Provide a baseline - Potential opportunities

![Table showing availability of formal point of access for insurers for different employment statuses](image)

Consistency of income

Employment status
- Work full time for a salary: 1.6% Banked, 43.7% Unbanked & mobile phone, 0.4% Unbanked & don't have a mobile phone
- Work part-time for a salary: 0.6% Banked, 0.5% Unbanked & mobile phone, 0.5% Unbanked & don't have a mobile phone
- Pensioner/retired: 0.5% Banked, 0.2% Unbanked & mobile phone, 0.3% Unbanked & don't have a mobile phone
- Self employed (formal sector): 1.3% Banked, 1.5% Unbanked & mobile phone, 0.9% Unbanked & don't have a mobile phone
- Farmer (work on own farm): 1.7% Banked, 8.4% Unbanked & mobile phone, 45.4% Unbanked & don't have a mobile phone
- Self employed (informal sector): 1.7% Banked, 5.4% Unbanked & mobile phone, 8.1% Unbanked & don't have a mobile phone
- Casual worker: 0.1% Banked, 0.6% Unbanked & mobile phone, 1.6% Unbanked & don't have a mobile phone
- Other: 0.1% Banked, 0.2% Unbanked & mobile phone, 0.7% Unbanked & don't have a mobile phone
- Housewife: 0.6% Banked, 2.2% Unbanked & mobile phone, 5.5% Unbanked & don't have a mobile phone
- Student: 0.6% Banked, 1.1% Unbanked & mobile phone, 7.2% Unbanked & don't have a mobile phone

Key:
- Green: Within reach: 864,185 individuals, 4.1% of adults
- Blue: Flexible premium: 1,265,694 individuals, 6% of adults
- Yellow: Innovative distribution: 3,759,532 individuals, 17.8% of adults
- Red: Hard to reach: 15,270,645 individuals, 72.1% of adults

Note: percentages refer to % of adults

Figure 6: Segmentation by employment status, banked status and mobile phone ownership

Source: Cenfri, Tanzania Access to Insurance Diagnostic
Provide baseline – barriers

Les raisons de la non souscription

- Manque de sensibilisation et de compréhension: 42%
- Revenu trop bas: 30%
- Pas besoin/ne veux pas d'assurance: 25%
- Coût trop élevé: 9%
- Manque de confiance: 6%
- Non éligible/rejeté: 7%
- Barrière de langue: 3%

62% n’ont jamais entendu parlé de l’assurance. Seulement 28% pensent qu’on peut faire confiance aux assureurs.

“Parce que les companies d’assurance trouveront toujours une raison pour ne pas vous couvrir et vous rembourser. C’est pourquoi les gens n’ont pas confiance en eux.”
Homme, citadin, employé formel

“Une fois, j’ai été victime d’un accident, mais la compagnie d’assurance a toujours trouvé un prétexte et des arguments pour ne pas me rembourser. Je n’ai rien reçu de leur part.”
Homme, citadin, propriétaire d’une PME

Source: Cenfri MAP Madagascar
Define suitable objectives

- Prioritize
- Agree
- Define metrics

Increase insurance coverage from 26 percent to 36 percent of adults.

Reduce the financial vulnerabilities of families at the base of the pyramid.

Explore the possibilities of implementing micro-insurance products in the market.

Increase usage of insurance via new products with a focus on insurance education and promotion for the most vulnerable populations.

Fomentar el acceso y uso de productos y servicios de seguros para todos los segmentos de la población de manera confiable, eficiente y adecuada a sus necesidades.

Diagnóstico de los principales limitantes en los seguros agrícolas

Proporção da população adulta com algum produto de seguro: 7%-10%-15%

Criar serviços de seguros por meio do telemóvel.

% de adultos que tiene al menos un producto de seguro

% de productores agropecuarios asegurados con un producto de seguro agrícola

Diagnóstico de los principales limitantes en los seguros agrícolas
What could suitable objectives be?

- Insurance Penetration and Density (obviously)
- Number of adults with one or more insurance cover
- Number of women / rural dwellers / other subgroups insured
- Awareness / literacy indicators
- Number / geographic spread of intermediation touch points
- Consumer protection aspects
- Product quality aspects
- Claims amounts paid to previously excluded groups
- Regulatory reform (e.g. microinsurance regulation)
- Tax benefits
- Impacts (poverty, vulnerability, health, nutrition, productivity, …)
Measure (and publish)
How digital technology can make a difference

Limited purchasing power
• Digitization reduces cost
• Peer to peer insurance promises to reduce cost
• Insurance on demand makes premium payment easier
• App-based intermediation reduces cost through more transparent competition

(Poor) people don’t trust insurance
• Peer to peer elements aim to bring trust back into insurance
• Insurance on demand makes it easier to try insurance
• App-based intermediation centered on clients’ needs and interests
• Thorough digitization will increase tangibility through quick turnaround times

(Poor) people don’t understand insurance
• Insurance on demand makes it easier to try insurance
• Smartphone based distribution and interaction (chatbots) lower the cost of communicating with clients
• Peer to peer elements help understand formal insurance in the terms of informal solidarity schemes
How digital technology can make a difference

No products suitable to the underserved
• Machine learning / AI on big data detects the insurable interests
• Machine learning / AI on big data provide new “statistics” for product design and pricing in the absence of traditional statistics

No business model to sustainably serve low income people
• Insurance on demand teaches insurers high-volume-low-margin model
• Radical digitization makes issuing of even tiny policies profitable
• AI allows to further reduce cost of underwriting and claims management

No suitable distribution model
• (Smart)phone based distribution helps to reach new markets
• Cloud based digitization allows to harness a variety of non-traditional distributors
• Radical de-paperization overcomes geographic exclusions
• Peer to peer bets on word of mouth in social media communities
Thank you!

Questions?