

National Insurance Conference 2019

“Disruption, Innovation and Business Growth”

Topic: Transforming the Insurance Business through Inclusive Insurance

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What is inclusive insurance?

- Inclusive insurance is often times referred to as insurance for emerging consumers or emerging customers¹ by industry players; mass insurance or popular insurance in Latin America² while the International Labor Organization (ILO) describes it as Impact Insurance³. In simple terms, it is the provision of insurance services to customers in the low-income bracket of the population; also known as microinsurance.
- A vast majority of the poor in developing countries work in the informal or agricultural sectors and do not have access to formal insurance. They neither can afford commercial insurance nor access social protection benefits (such as health, disability, or unemployment coverage), which are provided by employers and often co-financed by governments.
- Of all socioeconomic groups, the poor are most vulnerable to financial shocks but the least protected. They usually cope with financial crises by reducing their household expenditures, drawing on savings, selling productive assets, or taking out emergency loans.

Why is inclusive insurance important?

- Traditionally insurance companies have specifically designed products and business models that serve the people at the top of the pyramid or at best the middle⁴.
- However, at the bottom of that pyramid, is where the unserved, the so-called new segments are, and they have a real demand for protection⁵.
- The absence of formal safety nets makes the more vulnerable populations create informal risk management strategies. Research states that these informal strategies are ten times less efficient than formal protection mechanisms⁶.

In general, insurance is key to achieving sustainable development impact. A developed insurance sector contributes to:

¹ Inclusive Insurance closing the protection gap for emerging customers

² Inclusive Insurance closing the protection gap for emerging customers

³ Inclusive Insurance closing the protection gap for emerging customers

⁴ Inclusive Insurance closing the protection gap for emerging customers

⁵ Inclusive Insurance closing the protection gap for emerging customers

⁶ Inclusive Insurance closing the protection gap for emerging customers

- **Reducing risk, vulnerability and poverty** - Unpredictable events, such as illness, loss of assets, death or accidental disability of breadwinner, bring devastating consequences to poor households, particularly in developing countries. Worse, entire communities face upheaval from natural disasters such as windstorm/cyclones, floods and earthquakes. Such risks call for some kind of safety net or social protection mechanism. While public funds will always be necessary to help the most indigent, market-based solutions are an efficient and fiscally attractive option to meet the risk management demands of poor households and small enterprises.
- **Supporting sustainable livelihoods, economic development and growth:**
 - The poor tend to avoid risk, an understandable impulse but one that causes them to miss out on life-improving opportunities. Unable to protect themselves against bad outcomes, the poor may forgo opportunities with high expected returns in order to pursue safer but less remunerative activities; and
 - When millions of households and large number of enterprises, particularly SMEs, forgo opportunities that could be expected to produce a high return, regional and national income and productivity can be depressed. A developed insurance sector thus helps to mitigate risk at the individual or household level as well as at the enterprise level, encourages investments and risk taking by private enterprises, particularly Farmers and SMEs, and supports economic development.

What role does inclusive insurance play in the society?

- Research has shown that health insurance encourages people with low incomes to visit their doctors, resulting in reduced maternal and infant mortality⁷
- Farmers who have insurance can often qualify for credit that allows them to purchase higher yield, drought resistant seeds – which protects them from selling their assets when faced with a drought⁸
- It also helps families avoid resorting to drastic coping mechanisms when they experience a shock, such as taking children out of school and putting them to work⁹
- Globally the inclusive insurance market is estimated to have a potential 3.8 billion customers in emerging markets this has been defined as the lowest 60% of population in emerging markets¹⁰
- According to Swiss Re, emerging-market premiums accounted for 19.7 percent of global premiums in 2016. The year 2016 saw an increase of 14 percent in insurance premiums written in emerging markets overall, compared to 9.8 percent growth the previous year, though most of these premiums come from the upper tiers of their societies. Premiums in emerging markets overall totaled \$934 billion by the end of 2016.

⁷ Inclusive Insurance closing the protection gap for emerging customers, Jan 2018

⁸ Inclusive Insurance closing the protection gap for emerging customers, Jan 2018

⁹ Inclusive Insurance closing the protection gap for emerging customers, Jan 2018

¹⁰ Inclusive Insurance closing the protection gap for emerging customers, Jan 2018

- According to the Insurance Information Institute, in 2005, only seven of the major insurance players were involved in microinsurance; in 2011, there were thirty-three. By 2016, sixty major insurers, including AIG, Allianz, AXA, MetLife, and Zurich, were active in microinsurance¹¹. Representing a 700%+ growth over an 11-year period, this is a clear indication of the promise that resides in this segment of the insurance business. In other instances, global firms have come together in a consortium to deliver innovative solutions to customers in this segment of the market. An example is Blue Marble Microinsurance which was formed by 8 industry players with the sole objective of catering to customers in the microinsurance space.
- Although institutions assess the market’s size differently, they agree that the business case for inclusive insurance is driving their participation. The head of Emerging Consumers for a global firm is quoted as saying, “There is a clear business case, and the margins are good.”
- Insurers are viewing the market as a business—rather than as a charitable—opportunity, taking the time to pilot and test products for profitability¹².
- A 2015 study identified the untapped global market for insurance among women as being up to \$1.7 trillion by 2030—of which a remarkable \$874 billion in annual premium value would come from women in emerging markets¹³. The International Finance Corporation (IFC) has worked closely with a number of banks on gender-smart solutions for women business owners and has helped to identify their interest in insurance as well as human-centered design practices to meet their needs¹⁴
- The governments of India and China—the two countries with the greatest numbers of unserved people—are offering insurers incentives to reach rural areas. In a more purely private, but strongly social, effort, Blue Marble Microinsurance’s initial offers have focused specifically on farmers protecting Agric value chains and incomes.

The Nigerian Insurance Industry Indicators

Financial Inclusion	Banked Population	40% of Adults
Insurance Uptake	Insurance Uptake	1.9% of the Adult Population
Size of the insurance market	Insurance Market Penetration	0.3% of GDP
	Number of Life Insurers	27
	Number of General Insurer	41
	Number of local reinsurers	2
	Life insurance: GWP (2016)	\$421m
	General insurance: GWP (2016)	\$629m

¹¹ Inclusive Insurance closing the protection gap for emerging customers, Jan 2018

¹² Inclusive Insurance closing the protection gap for emerging customers, Jan 2018

¹³ Inclusive Insurance closing the protection gap for emerging customers, Jan 2018

¹⁴ Inclusive Insurance closing the protection gap for emerging customers, Jan 2018

- At 59 licenses across a relatively small premium pool, the Nigerian insurance market is fragmented. Apart from a few larger and stronger insurers, there is a large tail-end of insurers with small balance sheets and often weak business fundamentals. For many insurers, expense ratios are high and claims ratios are either too low to provide consumer value or too high to maintain profitability¹⁵
- Insurance penetration in Nigeria remains low and well below the African and international averages, despite some growth in recent years, and total asset size is low relative to the size of the Nigerian financial sector Bank asset to GDP was 20.2% in 2016.¹⁶
- The local economy is unable to generate sufficient skills to serve the market appropriately. There is a shortage of general insurance business, underwriting and actuarial skills.¹⁷
- A lack of awareness of how insurance works and low trust in insurers compound development challenges.¹⁸
- Less than 2% of Nigerian adults have insurance. Even for the target group that is the easiest to reach (salaried employees), insurance uptake is only 10.6%. The National Health Insurance Scheme, despite its aims for universal health coverage, serves only an estimated 1% of the population.¹⁹

Why Inclusive Insurance is important for Nigeria?

- **An important mechanism in converting those in the informal sector into the formal sector:** While the formal economy is unable to absorb the growing workforce, the informal economy is buoyant, particularly driven by small-scale traders. Nigeria's adult population is approximately 100mm. 60% of the adult population is unbanked. The formal economy accounts for 8% of adult population in Nigeria, South Africa is 36% and Kenya is 14%. 16.7% of the adult population own a business (non-agric) while 11.2% own an Agric related business.²⁰
 - 63% are based in the rural areas; 50% are women; 56.9% are 35 years and younger and 20.4% have no formal education.²¹
 - The above data set presents to you a market that is very ripe for a targeted rollout provided the appropriate incentives and business environment are present.
- **An enabler towards achieving economic diversification agenda:** The insurance sector in Nigeria has the potential to contribute to the following key areas: achieving agricultural and food security; ensuring energy sufficiency in power and petroleum products; and driving industrialization by focusing on SMEs. A well-functioning insurance industry

¹⁵ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

¹⁶ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

¹⁷ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

¹⁸ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

¹⁹ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

²⁰ EFINA Access to Financial Services in Nigeria 2018 Survey

²¹ EFINA Access to Financial Services in Nigeria 2018 Survey

minimizes the risk associated with economic activity in these sectors and enables the efficient allocation of risk in the broader economy²²

- **A tool for Financial Inclusion:** Inclusive insurance has the potential to address the needs of 63.1m of the adult population that reside in the rural areas; 50m women who account for half of the adult population and 57m adults who are 35 years and younger²³
- Less than 2% of Nigerian adults have insurance. Even for the target group that is the easiest to reach (salaried employees), insurance uptake is only 10.6%. The National Health Insurance Scheme, despite its aims for universal health coverage, serves only an estimated 1% of the population.²⁴
- **Reach limited to urban and high-income segments.** The uptake of insurance among individuals and households is concentrated in urban areas, largely in the south and within specific target markets that are typically easier to reach. Almost half of the 1.8 million adults with insurance work as salaried employees.²⁵
- The formally employed market of 7.9 million individuals remains largely untapped (only 10.6% having insurance, 33% being women) and presents a ready distribution channel via employee groups.²⁶

Microinsurance presents an opportunity for innovation, but overall market interest is lackluster – understandably so, given the constraints in serving even the upper end of the retail market. Claims ratios are low. Regulatory restrictions that have held back the development of mobile money and the use of airtime to pay premiums prevent scale via mobile insurance distribution.²⁷

Inclusive insurance improves development outcomes for women.

- For women, insurance is important as we are at a much higher risk financially than men.
- Although the status of women worldwide and in Nigeria is rising (women are better educated, better paid, and have more influence on household decisions), our ability to mitigate financial risk for ourselves, our businesses and our families remains low. Out of Nigeria's adult population of 99.6m, 49.9m (~50%) are women; of which only 16.6m (33.3%) are banked.
- Nigerian women, whether they are high or low earners, are more at risk of losing their income because of maternity-related issues, marital status, and constraints imposed by society and law.

²² Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

²³ EFINA Access to Financial Services in Nigeria 2018 Survey

²⁴ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

²⁵ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

²⁶ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

²⁷ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

- Due to greater insecurity at work we are less likely to save for pension than men which puts us in a vicious cycle of dependence on others making us vulnerable to financial risks.
- Improved access to insurance would help Nigerian women increase their savings, their ability to cope with financial challenges, and at the same time, help them protect those they care for the most: their children and their families.
- IFC is the first development institution to do gender-lens investing starting in 2006 (Nigeria was the first market where we implemented a Banking on Women program). Since that time, IFC's Banking on Women portfolio has reach a little over \$1.6 billion and has continued to innovate with a range of holistic solutions to help our clients better integrate women individuals and entrepreneurs as customers of financial institutions.
- In 2015 together with AXA and Accenture we launched the SheforShield report which highlighted that the women's insurance coverage gap would be up to \$1.7 trillion. In Nigeria that gap is estimated to be between \$5 to 8 billion.

What can be done by IFC to promote Inclusive Insurance?

IFC will contribute to addressing constraints in developing the insurance sector (including the micro-insurance sector), especially demand & supply side issues including:

1. Lack of awareness/education on the need and potential of insurance products to address risks
2. Lack of trust on part of the beneficiary, perhaps stemming from poor experience of dealing with insurance companies in the past namely focus on responsible insurance solutions
3. Affordability indicating a mismatch between ability-to-pay and the price (i.e., premium) of the insurance product
4. Lack of product(s) innovation to address the needs of the BoP market
5. Need to demystify insurance products and services, including policy terms
6. Need to simplify the claims settlement process including documentation for claims processing
7. High transaction costs
8. Regulatory constraints (through a partnership with IBRD)
9. Need to transfer risks (reinsurance)

IFC's Insurance Program aims at creating viable insurance products and commercially-viable, attractive insurance markets, with the following objectives:

- Increase access to insurance (focusing on health, disaster/agriculture, and micro-insurance), for both households and SMEs, responsibly and sustainably.
- Reduce the risk and vulnerability of households and enterprises to both life cycle and catastrophic risks by raising awareness and building risk management capacities.
- Promoting an enabling environment for the development and growth of the insurance sector, thereby contributing to strengthening of the financial system

This Program will address some of the supply side issues by providing AS to insurance companies and financial institutions to develop appropriate insurance products, reach new market segments and deepen the insurance market. This will in turn attract investors (including IFC). On the demand side, through AS on responsible finance initiatives and capacity building of intermediaries, some of the issues around product awareness, transparency and consumer education will be addressed.

What does the future look like?

Improving market fundamentals: Strong possibility of market consolidation to deal with perceived trust issues in the Market place and demonstrate the ability to underwrite large industrial risks. Raising capital requirements, in itself, will not be sufficient to achieve this objective without better enforcement and a broader move to embed a risk-based approach to governance and greater professionalism in the market.²⁸

Improving value in the compulsory insurance market: Greater cross-agency collaboration is required to improve enforcement of compulsory insurance. Even more so, efficient consumer redress systems and increased claims ratios are necessary to enhance awareness of insurance and ensure better value for consumers²⁹

Increase in distribution medium: Agent and aggregator-based distribution is required to unlock the retail insurance market opportunities. The Microinsurance Guidelines already broaden the intermediation space beyond brokers and agents. An equivalent regulatory dispensation is needed in the market at large for the development of alternative distribution channels.³⁰

Dealing with unintended regulatory consequences: Government is already coordinating around some of the bottlenecks to mobile distribution. However, more needs to be done to achieve results and drive market development. Bancassurance regulation is perceived as too restrictive, product-approval processes are experienced as slow and inefficient, and indications are that microinsurance regulations do not create enough incentives to be taken up at scale. It is important to find a speedy resolution that will help to kick-start momentum in the market.³¹

²⁸ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

²⁹ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

³⁰ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

³¹ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

Skills transfer: The technical skills gap creates an imperative for a concerted skills development initiative to improve the ability of the insurance sector to cover risks appropriately. This includes underwriting skills, actuarial and cost management skills, alongside capacity in product design and delivery.³²

Anchor inclusive insurance approach in broader insurance sector development imperative: A number of stakeholders, including NAICOM and NIA, are working to promote inclusive insurance. While the opportunities for microinsurance are large, so are the challenges. Unlocking these opportunities requires a strong and innovative insurance market. The analysis shows that it is important to anchor the inclusive insurance focus in a broader understanding of the drivers and constraints to insurance market development.³³

The role of insuretech: As mobile phone penetration continues to increase, and broad band access follows along the same trajectory, more insurance products will be designed and pushed to the market via this platform. Insurance firms will be able to get real time feedback on product design, fit, and market acceptability. In this scenario, the cost of product development, marketing and rollout will be greatly reduced.

The future of Inclusive Insurance will be driven by technology. In order to deepen penetration and provide valuable services to people in the most of need of the benefits of insurance, insurance companies must innovate and adopt emerging technologies. Insurance companies should be leaders in this space, not followers. The insurance industry has a significant role to play in improving financial inclusion.

³² Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic

³³ Cenfri: The role of insurance in inclusive growth: Nigeria Diagnostic