Impact Insurance

International Labour Organization

Learning from others' mistakes

Briefing Note

The microinsurance sector has grown from 78 million policies in 2007 to 500 million in 2012 and the exponential growth is expected to continue, since the potential market is estimated at 3–4 billion policies. However, for every scheme that has succeeded, many more have struggled to reach scale, become viable or provide client value, and some have failed altogether.

Many innovations have resulted from efforts to convert these near-misses to successes. This paper draws on the experience of 12 such attempts to identify the most common challenges that caused severe problems. The challenges are organized in five clusters: Viability, Client Value, Operations, Partnerships and External.

VIABILITY

i. **Insufficient incentives and/or capacity of sales agents.** This affected motivation and ability to increase take-up and renewals. When partnering with distributors, the insurance product competed with other products or services that agents (employed by the distributor) provided (e.g. loans in the case of MFI loan officers, or fast-moving consumer goods in the case of retailers).

ii. **Mispricing** due to limited data, **adverse selection** and **moral hazard**, resulting in claims incidence that was higher than expected, especially for health insurance.

iii. The problem of high claims was exacerbated by **poor performance monitoring**, which prevented organizations from identifying claims trends during high-growth periods.

CLIENT VALUE

i. **Raising awareness** proved a challenge in mature markets, when the insurer was attempting to diversify from standard operating models. In mature markets, it may be even more difficult to change client-buying behaviour, if customers are already accustomed to buying insurance in a certain way.

ii. Seemingly client-centric features, such as comprehensiveness and flexibility, which aimed to improve value, instead increased **complexity** and had adverse effects on client understanding and demand.

OPERATIONS

i. Environmental factors, which may seem inconsequential, created obstacles and prevented agents and clients from translating intentions into actions, thereby reducing enrolment and renewal levels. **Inefficient processes** and **lack of systems integration** affected enrolment, premium collection and renewal rates.

ii. Organizations needed to change their standard operating procedures and internal structures, since **existing structures** were not suited to microinsurance products.

iii. **Technology implementation** was hampered by lack of suitable technical partners, poor connectivity and difficulty in persuading health providers to adopt new systems.

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PARTNERSHIPS

i. For distributors, a partnership with an insurer must bear **financial results**, either directly through commission earned, or indirectly by supporting their core business. Cases that were not able to do this encountered serious challenges.

ii. Cases struggled to **align objectives** with partners, both as a whole and across levels within the organization.

iii. Not all distributors were **capable** of, or even interested in selling insurance.

EXTERNAL

i. As regulators try to balance innovation and consumer protection, they may enforce **regulation that limits innovation**.

ii. Governments are increasingly trying to use insurance mechanisms to achieve policy objectives. This can create opportunities for partnerships, but it may also create **competition**, as experienced in some cases.

To address these challenges, organizations need to 1) pilot carefully; 2) set realistic targets and activity-based goals that can be used to track progress; 3) match product with stage-of-market development; 4) provide value to each stakeholder and 5) make a long-term commitment and adopt a learning culture.

The long-term commitment must come from leadership and management. The key is to adopt a learning culture that allows people to make mistakes and provides a space for mistakes to be analysed and corrected. This culture – with due accountability but without unnecessary blame – has to come from leadership.

It is not always possible to wait and watch, while others take risks and make the mistakes. Waiting and refusing to take new risks can be as costly as ignoring the mistakes of the past. The organizations who will manage to serve the millions who are currently uninsured, will be the ones who try new things, inevitably face challenges and some failures, but overcome them and change course when needed.

Housed at the International Labour Organization, the Impact Insurance Facility enables the insurance industry, governments, and their partners to realise the potential of insurance for social and economic development. The Facility was launched in 2008 with generous support from the Bill & Melinda Gates Foundation, and has received subsequent funding from several donors, including the Z Zurich Foundation, Munich Re Foundation, the World Bank Group, USAID, AFD and AusAID. See more at: http://ilo.org/impactinsurance