



► Social Finance Brief

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MiCRO - The Microinsurance Catastrophe Risk Organization

Providing parametric insurance to low-income
populations

Overview

- **Description:** MiCRO is a company that seeks to close the protection gap through the design and implementation of parametric insurance for the most vulnerable and low-income populations.
- **Products offered:** Currently its products are marketed in Guatemala, El Salvador, Colombia and Mexico through aggregators such as microfinance institutions, NGOs or public entities and offer coverage against interruption of productive activity due to natural risks such as drought, excess rain and earthquakes.
- **Distribution channel:** It is marketed through entities that already have access to the target population through a service or product such as credit, technical assistance or a development program.

In recent years, as a consequence of climate change, there has been an increase in the number and intensity of natural disasters, which have left millions of people affected and in conditions of extreme poverty around the world. Under this scenario, MiCRO identified the gap that the insurance industry had left in the face of these risks and the need to pay special attention to vulnerable and low-income populations that, in most cases, are the ones that are most affected by these catastrophes. This is how MiCRO was born in 2011 with the aim of developing sustainable insurance, based on parameters, such as wind speed or rainfall, and offers coverage for both direct and consequential damages, to people and MSMEs who may see their expenses increase or their income decrease as a result of a natural disaster.

Its innovative model makes use of state-of-the-art technology, through remote observation facilitated by sensors and satellite information, to measure indices that allow detecting the occurrence and severity of droughts, earthquakes, and excessive rainfall in order to protect vulnerable populations. Thanks to the use of these indices, the company has the ability to trigger fast payments, without the need for additional loss verification, which increases the value of the product by providing liquidity to its policyholders when they require timely compensation to quickly recover from any of these eventualities.

Trust in insurance is built for everyone and between everyone

For the insurance industry in general and especially for parametric insurance, there is consensus about the importance of making conscious and responsible sales, since in many cases, bad customer experiences are attributable to a lack of clarity about elements of the insurance or ignorance about its operation. For MiCRO, in addition to the prevalence of low awareness of insurance in vulnerable populations, there is also the fact that insurance based on indexes is still new in the market, and both the target population and the aggregators that sell the product are not familiar with this type of coverage. This is why the company strives both to design superior quality indices and to define strategies that allow it to provide clarity and confidence about the product for the client and its allies.

More than an “aggregator” is an “ally”

It is usual for the marketing of insurance to be carried out through different aggregating institutions, sometimes resulting in the client not interacting directly with the insurer, thus transferring part of the client's experience to the distribution channel. Developing a simple product that generates value and defining a cross-cutting communication strategy focused on the characteristics of the population not only helps to make the insurance tangible, but also manages the expectations of the client and the other stakeholders throughout the supply chain.

Insurance value

For MiCRO, the starting point is to determine the aggregating institutions that have a position in the population segments they want to reach. It is important though that the institutions must also understand the interests and needs of the group they represent. This has allowed the company to more easily reach groups of policyholders with homogeneous characteristics and risks, and to grow more efficiently. Even so, to establish a successful alliance with an aggregator it is necessary that, although the insurance is conceived from the needs of the population, it must generate value for the service offered by the aggregator. The success lies in the fact that both the institution and the client can perceive that the product generates more value with the insurance than without it.

MiCRO's strategy has been to highlight those insurance features that add value beyond the financial component. Although the structure of the commission must make sense for all those involved, for the aggregator it is necessary that the insurance serve as an element that allows it to achieve additional objectives, such as differentiating its products and services in the market or positioning itself as innovators and agents of change in sustainable development issues. An example of this is the case of Banco Banrural in Guatemala, where within the framework of the alliance, credit lines were designed for microentrepreneurs and small farmers who have the benefit of accessing insurance based on MiCRO indexes once they have acquired a loan, thus generating a positive impact on the Guatemalan population.

Likewise, by strengthening the resilience of clients, the aggregator also benefits from an improvement in the risk profile of its portfolio. This scenario is more tangible in financial institutions, since insurance transfers part of the risks that can cause loan defaults by their clients, even more so in times when climate change makes the phenomena covered more difficult.

Frequent and severe

In addition, MiCRO pays special attention to the support material used by the distribution channel to publicize the product. MiCRO provides information about the product in a simple, didactic and adapted format, using drawings, tables and colours to explain the basic elements of the product in a simple and friendly way. This material includes welcome videos, as well as informative graphics on the product's characteristics, risk prevention practices, flyers, and if the insured event occurs, clients also receive an SMS communicating the event and the level of payment, among other things. Finally, they simplify contracts both in their structure and in the language used to facilitate the client's understanding of the product.

A challenge can arise when the regulation does not allow the simplification of the clauses or when the insurers prefer to keep some elements to protect themselves legally. MiCRO has therefore chosen to train aggregators and provide them with graphic tools to explain the concepts in a simple way, but emphasizing the trust and support provided by the insurance, rather than its operation and/or technical aspects. However, for the company one of the main challenges lies in the client's understanding of the technical aspects. Here the trust and support provided by the aggregator is fundamental, since

both the explanation at the time of sale and the material provided are simple and dynamic enough to provide the client with a clear explanation of how the product works. Aggregators have emerged as a key player, as they provide the necessary access and support for customers to generate trust and confidence in MiCRO's insurance offer.

For each client, a strategy

Due to ignorance or bad experiences, the insurance industry has observed that distrust of insurance or the insurance industry is a major barrier. The coverages designed by MiCRO, in addition to establishing strategies that reinforce confidence in insurance for these particular customers, offer features that allow it to offer differentiated products that fit the needs of customers. Importantly, payments are triggered without the need for the insured to file a claim, ensuring that the client does not lose the benefit of the coverage if they do not immediately understand the scope and operation of the insurance. This allows the product to be simple in its structure and operation, giving clients the necessary time to adopt the product and learn to manage their risks with advanced tools.

Other elements that MiCRO develops together with its local allies are: i) Video clips for both the sales force and the client in light formats, so that they can be distributed by mobile devices. ii) Simple information for the insured to reinforce the perception of security, support and well-being of having the insurance, iii) Design of products that offer a relatively high frequency of payments, which are an opportunity to continue educating the client and to counteract the distrust of the population, iv) Sending text messages with advice, for example on good practices to manage risks.

Continuing to expand

Currently, MiCRO continues to build its path in the Latin American market to achieve its expected growth objectives, which involves shareholder transformations, new strategic alliances and the development of new products. It is currently seeking markets that have a high interest in parametric insurance and inclusive insurance in order to address emerging risks and the growing needs of vulnerable populations.



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The [Impact Insurance Facility](#) contributes to the agenda of Social Finance by collaborating with the insurance industry, governments and partners to realize the potential of insurance for social and economic development.

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