Attaining and improving profitability and sustainability in inclusive insurance


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Insurance serves as a crucial mechanism for protecting individuals and businesses from unforeseen risks. It helps strengthen resilience by providing financial security, aids economic growth by mitigating risks and encouraging investment in businesses, and provides peace of mind. However, despite notable progress in extending insurance to underserved markets over the past 20 years, there is still a hesitation within the insurance sector to invest in developing insurance solutions for less affluent or less conventional markets. This limits the necessary supply of insurance to entrepreneurs, small businesses, smallholder farmers, low-income households and other under-served market segments.

With the growing threats posed by climate change, this issue needs to be addressed urgently. It is a critical time to ensure that insurance solutions enable a broader population to effectively manage risks and avoid disruption to productive work. At the same time, there is an economic opportunity for insurers that can successfully serve these relatively untapped markets. Where insurers can successfully and responsibly be more inclusive, there is a win for all.

Research with insurers not currently offering inclusive insurance revealed that one of their main concerns was being able to attain financial viability. While not all insurance organisations are for-profit, such as mutuals and Takaful insurers, all want to be financially viable.

This briefing note shares the current best practices of successful inclusive insurers that have managed to achieve financial sustainability. It is excerpted from a full paper that showcases examples for each of the strategies described below.[1]

1 This briefing note is excerpted from the paper "Attaining and Improving Profitability and Sustainability in Inclusive Insurance" authored by Lisa Morgan,Technical Specialist at the ILO's Impact Insurance Facility and Karimi Nthiga, Regional Coordinator for Africa at the Microinsurance Network (MiN). The paper is available at this address: https://www.ilo.org/publications/attaining-and-improving-profitability-and-sustainability-inclusive

To achieve financial sustainability, organization should consider strategies under four key categories:

1. Having a clear strategy and securing stakeholder support

Having a well-thought-out strategy and securing the support and buy-in from all stakeholders from the start is not only necessary but can greatly help to develop optimal solutions that are appropriate, customer-centric and acceptable by all.

Different goals for different strategy periods

Some leading insurers interviewed said that in different strategy periods, they had different goals – for example deliberately focusing on achieving growth over profit in the short term, and the opposite at a later point. For some, the goal for their inclusive insurance business was to grow, but just to break even or make modest profits – something they believed was more responsible and appropriate given the target market. All stressed it is important to have a mid- to long-term vision of inclusive insurance and value the customer since the inclusive insurance customer of today, could be the conventional insurance customer of tomorrow.

Reinsurers and trusted consultants can help

Having credible reinsurers or consultants involved, who base advice and decisions on real-life data, can help allay the fears that senior management might have about venturing into new territory without credible (in-house) data. Reinsurers and trusted consultants sometimes have access to data from the same or similar markets and experience of setting up similar inclusive insurance schemes. Once a product is launched, it generates its own data over time, and the problem of lack of data is diminished.

Look at the portfolio by channel and as a whole

A leading insurer interviewed recommended looking at the profitability of inclusive insurance by channel i.e. aggregate the profitability calculation for all products sold through the same channel. This practice helps to ensure that even if a product has not yet reached its break-even point, the insurer may be more willing to give it more time if the overall channel is profitable.

Time to profitability

When securing senior management support, it is important to set realistic expectations regarding profitability and emphasize the long-term vision. Delivering quick wins can help to build confidence.

2. Designing the right inclusive insurance solutions and achieving scale

To design the right solutions and reach scale, having the right team with the right qualifications and experience is crucial. Market research both before the launch and on an ongoing basis is highly recommended, as is using a Human-Centred Design (HCD) approach for product development. Successful inclusive insurance products are AAARS products – they are affordable, accessible, appropriate, responsive and simple. To reach scale, inclusive insurers need to develop strong and diverse distribution partnerships. Trust also needs to be built through responsive claim payouts.

The right team

Leading insurers invest in quality people and devote dedicated resources to developing their inclusive insurance business. The team needs to know about or be willing to learn about inclusive insurance, which is different to conventional insurance. The right team does not need to be a big team. Most leading inclusive insurers had "lean teams" and shared various functions with the wider business (such as marketing, actuarial and finance).

Customer-centric design

Experience shows that doing thorough market research yields better results. Market research should be done before entering the market and from time to time to improve a product. Part of market research is understanding the barriers to uptake and any potential reputational risk. A key tip was to extend the research on and with distribution partners. By speaking to distribution partners, some leading insurers gleaned a much better understanding of what products they wanted and felt would fulfil their members' or clients' needs.

3. Achieving scale and improving retention

Building scale or successful distribution is seen as the holy grail of inclusive insurance. This means both reaching new clients/beneficiaries and retaining them. It should be kept in mind that reaching scale requires time.

Building trust by being responsive, paying claims and being visible

To meet its promise, inclusive insurance should provide responsive products that offer client value. This builds trust, and trust is needed to reach and retain scale, which in turn is a key building block for financial sustainability. Many insurers know the power of being visible when it counts.

Distribution partnerships and strategies

The secret to success with inclusive insurance is understanding the financial touchpoints of the targeted population and then exploring possible partnerships with these alternative distribution channels. They are alternatives or supplementary to the usual in-house agents (direct sales), tied agents/brokers and large financial institutions, such as banks. With financial viability in mind, insurers interviewed highlighted the importance of analyzing the different distribution channels available and mapping expected numbers of policyholders by channel. The success and profitability of a product is highly correlated to the success of the distribution partners. If they are successful with their customer base, then the insurer has a better chance of profitability with the associated insurance solutions; however, the reverse is also true.

Technology for scale

Technology is key to reaching scale. Having said this, there was also some pushback on relying too heavily on technology without human intervention. Inclusive insurance will not sell itself through an app, especially if the target population is new to it. Rather, the “phy-gital” approach to sales/distribution was recommended – combining aspects of the physical and digital. A successful approach is to have a digitally enabled distribution workforce that is still front faced by a human.

The importance of client value

Insurance needs to be seen (and experienced) as valuable if it is: a) it to be purchased in the first place; and b) for customers/members to renew their policies. Good client value leads to new customers and persistency, the ingredients for scale. One recommendation about persistency is to see what flexibility there is in how premiums can be paid and how frequently. This is important for customers who might not be banked and may not have regular incomes.

Mandatory and group products where possible

Experience shows that it is much easier to reach scale where products are mandatory and embedded with other products, such as compulsory credit life cover with a loan, or when sold to groups.

Public-private partnerships can help to reach scale

Government driven or mandatory products with government subsidies have high potential to reach scale. However, subsidies may not last forever, and so it is important to keep this in mind when developing these schemes.

4. Managing expenses

On managing expenses, it is advisable to simplify product design and monitor progress, especially by tracking key performance indicators (KPIs). Successful inclusive insurers leverage technology to reduce administration and distribution costs, maintain a lean team and focus on strategic partnerships that also help to minimise their costs.

Managing operational expenses

When asked about how they managed their operational expenses for inclusive insurance, leading insurers highlighted a few key approaches. One primary strategy is sharing costs with the parent company by utilizing central functions such as finance, actuarial, risk, legal, and other support services. These departments serve the entire organization, allowing expenses to be efficiently apportioned. Another common approach involves offloading or sharing operational costs with partners, particularly distribution partners. The overarching message is to build strategic partnerships that help lowering costs, leveraging what already exists. This means going through the insurance value chain to see which partners can help with which expenses.

Technology and cost efficiency

Using technology for scale and to reduce costs can greatly help achieve profitability. It can be especially helpful when trying to reach remote customers, though connectivity can sometimes be an issue. Best use of technology, however, comes with a caveat: it needs to be relevant and suited for the processes. The process should define the technology and not vice-versa.

On creating ecosystems

Inclusive insurers, no matter their product offering, will have a constellation of partners with whom they need to work. These partners may already have relationships with each other. Key to success is identifying the synergies and aligning incentives, so that costs and information can be shared across partners. Insurance is an enabler and can be used to promote access to other financial services.

Our research shows that inclusive insurance can indeed reach profitability and be financially sustainable, but that it usually happens under certain conditions, with a certain mindset and by applying key strategies. We encourage all organisations that either want to develop new inclusive insurance solutions or improve what they are currently offering to read this paper. Now is the time to develop new or improve existing insurance solutions so that many more individuals and businesses can benefit and strengthen their financial resilience.

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