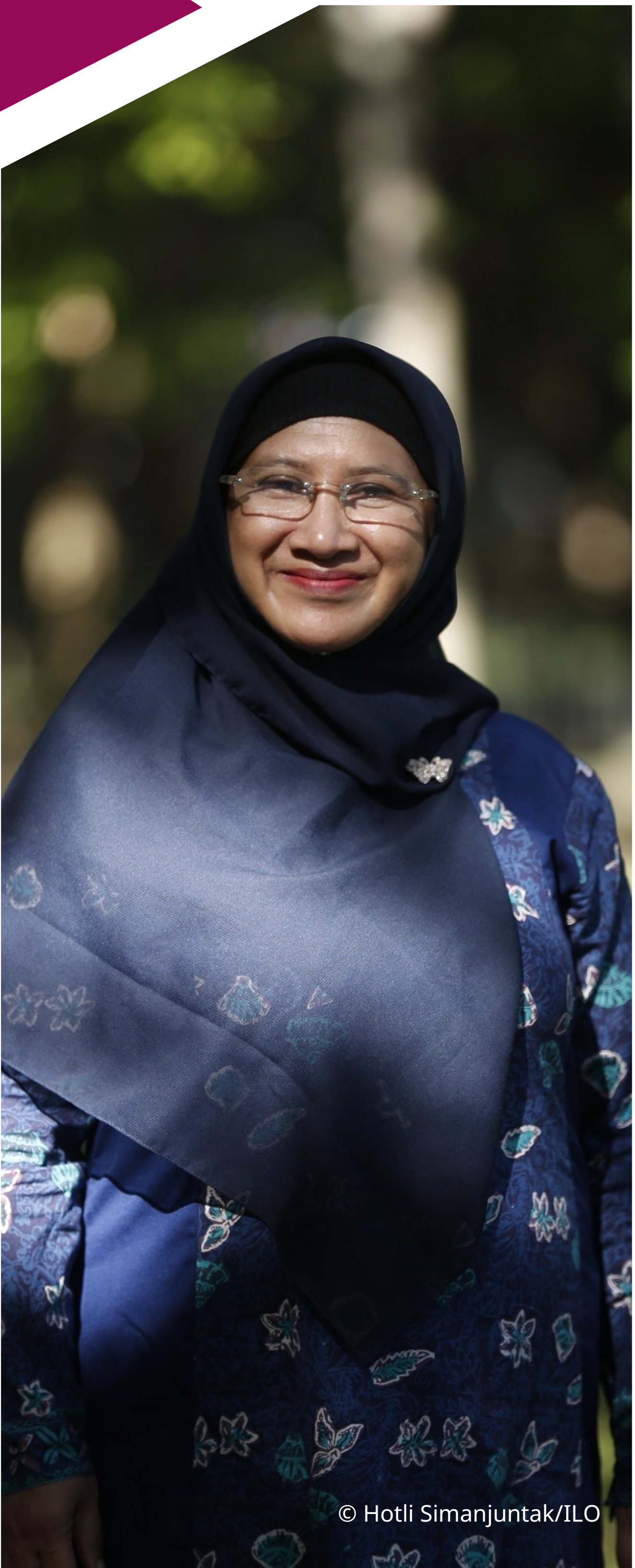
Improving distribution strategies in inclusive insurance



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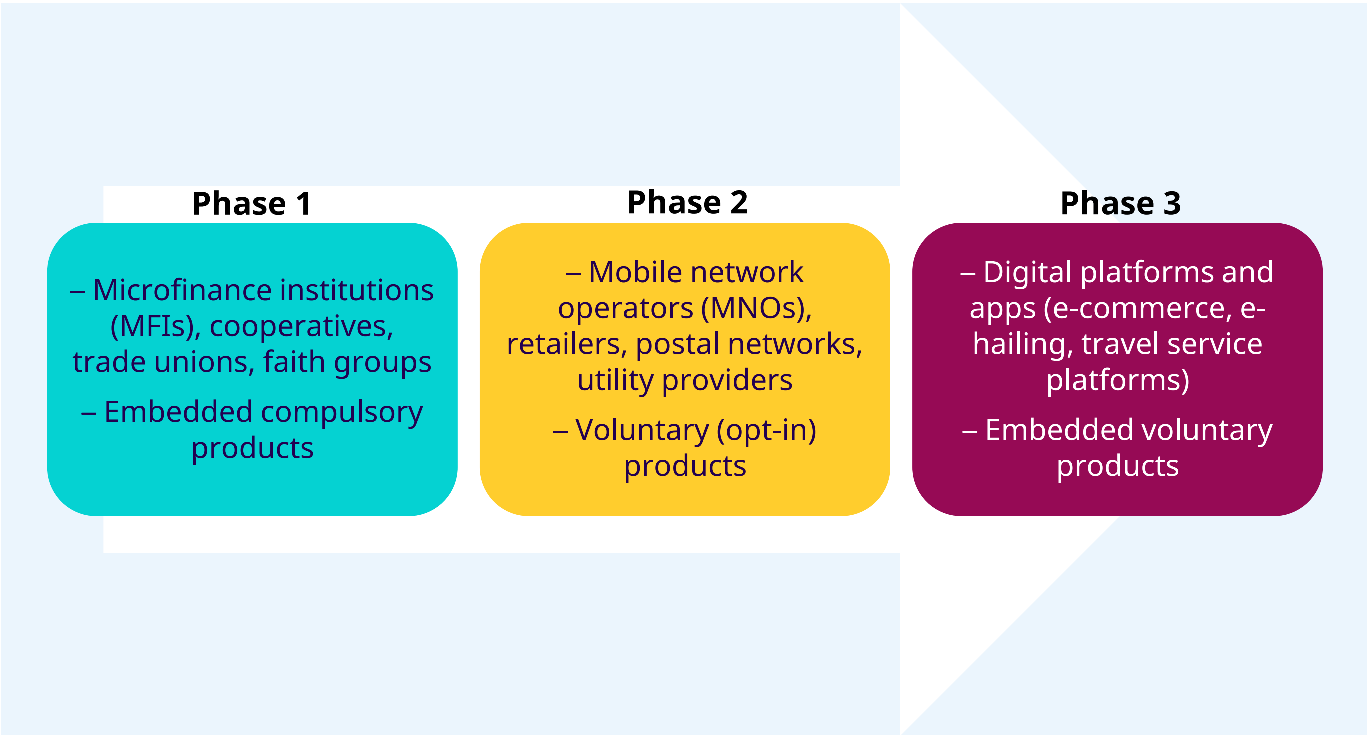
While the uptake of inclusive insurance has increased in recent years, the protection gap remains substantial. According to the 2024 Landscape of Microinsurance, participating insurers reached only 11.5 per cent of the population that could benefit from inclusive insurance across the 37 countries surveyed. One of the principal supply-side challenges facing inclusive insurance is distribution: reaching people who often work in the informal economy and may have limited familiarity with insurance. Designing effective distribution strategies is therefore essential to expanding access to insurance, achieving scale and supporting national financial inclusion objectives.

The 2024 Landscape of Microinsurance shows that agents and brokers remain the dominant distribution channel globally, reaching 62 per cent of policyholders, though significant regional differences exist. Nonetheless, distribution is evolving, as the growth of digital channels, changing customer behaviour and a more conducive regulatory environment are creating new opportunities to reach underserved populations at lower cost. The growth of digital channels, facilitating customer journeys that blend digital and human interactions, and the integration of inclusive insurance into other financial or non-financial products have created new opportunities for insurers to reduce distribution costs and offer customers greater convenience. RGA Reinsurance has described its own evolution across three stages, with each involving new distribution partners and approaches (Figure 1).

This note provides guidance for insurance providers and other stakeholders seeking to strengthen their distribution strategies and partnerships. It is excerpted from a full paper that showcases examples of successful distribution strategies used by leading insurers, grouped under four themes as described below.[1]

1 This technical note is excerpted from the paper Improving distribution strategies in inclusive insurance, authored by Lisa Morgan, Technical Specialist at the ILO's Impact Insurance Facility and Joyce Karimi Nthiga, Regional Coordinator for Africa at the Microinsurance Network (MiN). The paper is available at this address: https://www.ilo.org/publications/improving-distribution-strategies-inclusive-insurance

Figure 1: The evolution of inclusive insurance distribution models



Source: *Ola Oyekan, RGA Insurance*

1. Crafting an effective distribution strategy

Effective distribution requires reaching customers through channels that are relevant, trusted and sustainable. The inclusive insurance population is diverse, and a nuanced, flexible and client-centric approach to distribution is therefore essential. The following key strategies emerged from our interviews.

Apply human-centred design (HCD) to distribution strategies

To successfully implement such a strategy, providers require an in-depth understanding of end clients but also of distribution channels. Just like in product design, apply HCD approach to incorporate key aspects of a low-income consumer's daily reality – such as digital or financial literacy or access to infrastructure into the distribution strategy design.

Remember that the best channels select insurers, not the other way around

Insurers must build a compelling case to convince these channels to partner by ensuring: 1) the customer experience is good at every stage, 2) the economics of the partnerships matches the realities of how the channels operate ensuring that commission or revenue-sharing arrangements reflect the value the channel contributes in reaching its customers, 3) the product benefits the channel's core business, and 4) the partnership is built on ongoing learning and innovation.

Embed insurance to achieve scale

Mandatory and embedded products reach scale more quickly and spread risk across a broader pool of customers. This lowers administrative costs, reduces the risk of anti-selection and makes the business easier to sustain at scale.

Adopt a multi-channel approach

A multi-channel approach enables a wider reach, given that customer segments differ in their geographic, behavioural and technological profiles. It also spreads operational risk and reduces over-reliance on any single channel.

Leverage existing ecosystems

In addition to the more common financial inclusion ecosystem, insurers can leverage other existing ecosystems such as agro-industrial, community and digital ecosystems to embed insurance as a value-added or bundled offering.

2. Designing effective distribution partnerships

Strategic partnerships are essential to the growth of an inclusive insurance business. Evidence shows that both public-private partnerships and private-sector partnerships can reduce operational costs, improve market access, build trust and credibility, and promote collaborative innovation. Insurers acknowledged the importance of such partnerships, while also noting the challenges involved in establishing them – including the time required to build a partnership, the difficulty of designing arrangements that work for both parties, and the need to manage commission or profit-sharing expectations. Insurers can mitigate these challenges by implementing the following strategies:

Carefully identify and vet strategic partners

Designing effective distribution partnerships requires careful vetting of potential partners across five dimensions: strategic alignment, technical capacity, financial health, affordability of commission structures and brand credibility.

Work closely with the distribution partner starting with product design

Product design should be done together with the channel, with close attention to business processes, staff incentives and customer messaging. Understanding the needs of the target customer is vital for a successful inclusive insurance product, but it is not sufficient. Product design should also be closely aligned with the realities and needs of the distribution channel, making sure that insurance works well within their wider business. Processes, messaging and incentives are all vital elements of design that should be carefully developed alongside distribution channels.

Build win-win incentives for partners

Alongside careful partner selection and collaboration on product design, building win-win incentive structures and a clear value proposition for partners is essential to keeping partnerships productive over time. The first step is to define and agree on the objectives of the partnership. Each partner should be clear on the expected outcomes, the shared workplan, and the value-added services each party brings to the collaboration.

Monitor distribution performance

Having a clear framework for assessing the effectiveness of each channel and the return it generates allows insurers to make informed decisions about where to invest and where to adapt.

3. Managing distribution costs

Managing distribution costs is critical given the low premium levels involved in inclusive insurance. Partnering with channels that can handle multiple functions across the customer journey, using digital and AI tools to reduce administrative and claims costs, sharing costs across partners, and designing simple products that support lower commission negotiations are all effective approaches.

Partner with distribution channels that offer value and can reduce costs throughout the customer journey

Working with a partner that has the capability and infrastructure to handle multiple functions allows insurance activities to be integrated into existing partner operations, reducing administrative and operational costs. Partnering with existing local retailers, input suppliers, MNO agents or loan officers who can provide education, answer queries and support claims processes allows insurers to deliver the in-person support needed to build trust without developing this capacity separately and at great expense.

Leverage digital tools to facilitate distribution

Simple digital tools can allow agents to onboard clients efficiently and easily, integrating the task into their existing interactions with customers. Such tools can range from straightforward solutions such as Google Forms to fully developed chatbots or applications that simplify the onboarding process. Digital tools, and more recently AI tools, also have significant potential to reduce the costs of claims submission, assessment and payment, which represents one of the most cost-intensive activities in insurance provision, particularly in rural markets and for agricultural products.

Share costs across partners

Developing a cost-sharing strategy across partners can help manage costs and align incentives.

Leverage product simplicity to negotiate lower commissions

Designing simple products that can be easily integrated into a partner’s existing products, services or infrastructure makes a strong case for negotiating reduced commission rates.

4. Leveraging technology to support distribution

Technology is a powerful enabler of inclusive insurance distribution. Insurers interviewed for the full paper described leveraging technology across operational, administrative and customer-facing functions to distribute products in a more cost-effective way and improve customer experience.

Leverage technology to improve customer experience and retention

Mobile platforms, including interactive voice response (IVR) and SMS, are increasingly used to raise awareness of insurance products, complementing agents on the ground. WhatsApp chatbots and AI-driven digital agents can facilitate customer support in real time, handling customer queries, complaints and the end-to-end process of purchasing insurance.

Blend digital and human interaction through "phygital" distribution strategies

Phygital models – which blend the efficiency of digital platforms and the trust achieved through personal contact, such as with agents and community actors – tend to be the most successful, particularly in markets with low financial or digital literacy.

5. Conclusion

Appendix A of the full paper provides a practical checklist of actions that insurance providers can use to design and improve their distribution strategies across all four themes highlighted above. These areas highlight that partnerships only last when incentives are aligned, roles are clear, data is handled responsibly, and value is created for everyone involved. Ongoing performance management, shared learning, and transparent cost sharing are key to sustain these partnerships.

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