Impact Insurance

International Labour Organization

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Providing insurance responsibly

Briefing Note

Emerging consumers have a real need for protection and insurance holds the promise to reduce their vulnerability to risks while boosting productivity. At the same time, unserved market segments are usually unfamiliar with insurance, may have low trust in this tool or struggle to understand how it works and how it can generate long-term benefits. Therefore, for insurance to have a significant social and developmental impact, these specificities need to be taken into account through a responsible insurance provision approach. But what does *responsible* mean?

Responsible insurance provision can be defined as the delivery of *appropriate* products in an *accessible, transparent, fair, responsive* and *respectful* way to informed consumers who can *use* those products effectively.

An *appropriate* insurance product is one that provides relevant risk management benefits at an affordable price. For benefits to be relevant, they must be needed or wanted by a targeted market segment, and they must be suited to that segment's context. Products that offer a large number of benefits or riders that are likely never to be claimed are not appropriate. For a price to be affordable, it must be set at a level and paid in a manner that fits the target market's cash flows. Appropriate benefits and costs are what together create the value proposition for an insurance product.

Accessibility refers to the ease with which consumers can obtain, understand and use an insurance product. Some of the factors that influence accessibility are: physical proximity, convenience, familiarity, reliability, cultural acceptability, procedural requirements, and the availability and clarity of information.

Transparency refers to communicating clearly and openly without deceit. For instance, making use of bells and whistles, such as irrelevant benefits and riders, to increase market appeal and attract more clients goes against transparency. While there is a relationship between transparency and accessibility, a product can be accessible without being transparent, and a transparent product will not necessarily be accessible.

Fairness can be described as conforming to the principles of equality and justice. But how can insurers be fair if they are in the business of discrimination? Insurers often discriminate in order to charge appropriate premiums and to incentivize less risky behavior. This kind of discrimination can be fair when the price and benefits are proportional, but it may produce outcomes that society perceives to be unfair (e.g. more expensive health insurance premiums for elderly people). While there is no secret recipe for achieving fairness, insurance providers can take steps to improve the likelihood that they will provide insurance fairly and will be perceived as fair.

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Responsiveness refers to the speed and attentiveness with which providers cater to clients' requests, complaints or problems. By applying this principle in a proactive manner, providers can continually improve their understanding of clients and provide insurance in a way that generates sustainable value for themselves and their clients.

Respectfulness means showing attention and concern for the privacy, rights, traditions and welfare of others. Respectful insurance will take care not to cause harm.

Lastly, a *useful* insurance product is one that enables consumers to protect themselves more effectively from risk. It is not enough for insurance providers to create what they think is a useful insurance product; consumers have to use that product in a way that actually results in more effective risk protection.

The principles of responsible insurance can guide insurance providers to make the changes needed to become more responsible. The principles should be applied to all the stages of the value chain, such as product design, marketing, education, sales, enrolment, renewals, premium collection, policy servicing and claims management in order to bring substantial long-term benefits not only to clients, but also to providers.

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If insurance providers commit to responsible insurance provision, emerging consumers will become more able and motivated to use insurance as a risk management tool. At the same time, from a business point of view, responsible insurance provision may attract new clients, build trust in the brand giving a competitive advantage, increase scale and increase client and employee satisfaction, eventually leading to higher retention, greater productivity, and cost reductions in some areas such as marketing and complaint handling.

Seven principles of responsible insurance

Appropriateness	Offering relevant risk management benefits at an affordable price
Accessibility	Being easily obtained, understood and used
Transparency	Communicating clearly and openly without deceit
Fairness	Conforming to the principles of equality and justice
Responsiveness	Reacting quickly and attentively
Respectfulness	Recognizing the privacy, rights, traditions and welfare of others
Usefulness	Enabling consumers to protect themselves more effectively from risk

The ILO's Social Finance Programme works with the financial sector to enable it to contribute to the ILO's Decent Work Agenda. In this context, we engage with banks, microfinance institutions, credit unions, insurers, investors and others to test new financial products approaches and processes. The Impact Insurance Facility contributes to the Social Finance agenda by collaborating with the insurance industry, governments and partners to realize the potential of insurance for social and economic development.