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TEN YEARS OF IMPACT INSURANCE

Reflecting on key trends



The ILO's Impact Insurance Facility is celebrating its ten-year anniversary in 2018. Over the last ten years, we have grown with the industry. Despite a drastically changed environment, many products, technologies and players that took their first steps with us a decade ago are now well-established, while other promising initiatives are just beginning. Together, we are proud of this decade-long journey to reclaim the important role of insurance as a vital contributor to social and economic development.

Over the last ten years we have seen the following ten trends develop:

1. NOT JUST FOR THE POOR

Ten years ago, the Facility began with a focus on insurance for low-income households (a.k.a. microinsurance), but rapidly realized that the need for insurance went beyond the micro segment. While the traditional insurance industry was focused on corporates and high-net worth customers, there was a vast part of the population that was not micro, but had no access to formal insurance. This segment of emerging customers is growing. [One billion people will enter the consuming class \(earning more than \\$10 a day\) by 2025, and, for the first time in history, the number of people in the consuming class will be larger than those struggling to meet their basic needs.](#) Nevertheless, insurance penetration levels remain low, with estimates of 300-600 million served – just 10-20% of the potential market.

2. A RISKIER WORLD

The world has become a riskier place over the last ten years. [The Global Risk 2017](#) report ranked extreme weather events and natural disasters as top risks in terms of both likelihood and impact. As extreme weather events increase in frequency and intensity, they lead to loss of income and productive potential. Affected individuals resort to a variety of desperate coping strategies that include reducing food consumption, taking children out of school, borrowing money and selling assets. These strategies diminish people's ability to cope with the impacts of climate change, both in the present and in the future. Climate change is just one risk that is fast changing our world; migration, changes in the nature of work, youth unemployment and economic instability have led to greater uncertainty. As a result, there is a growing need to explore [meaningful options for managing and transferring such risks.](#)

3. SCALE AND PRODUCT EVOLUTION

The good news is that insurance providers have made significant progress in the last ten years. A number of schemes have [achieved scale](#) using a combination of embedded, bundled and voluntary offerings covering risks related to life, health, property, weather, farming, and fire, amongst others. Tools for market research and client value assessment (such as [PACE](#) and [3-D](#) (see figure)) have helped insurers become more client-centric.

4. LESSONS ON HOW TO EDUCATE CONSUMERS

Bundled products cannot provide value and create an insurance culture if consumers are not aware of them. In such cases, consumer education is all the more important. Evidence has led us, and others in the industry, to [change our thinking around consumer education](#) – particularly in shifting our focus from classroom learning to “teachable moments”. Teachable moments are instances when we are more likely to remember something because it was taught when we needed to use that information, and hence were more likely to be engaged. In the area of personal finance, teachable moments usually occur when someone is making a financial decision or using a financial service. We have found that interactions at precise moments during the [customer journey are generally more effective than traditional stand-alone classroom interventions.](#)

5. BROADER RISK MANAGEMENT NEEDS

Today, insurance is seen not as a standalone solution, but as a component of a more holistic approach to risk management. Insurers are engaging with stakeholders in agriculture, health, environment and financial services to provide integrated solutions that promote the resilience of the entire value chains. For instance, [bundling agriculture insurance with services like credit and farming inputs](#) makes insurance more tangible, results in better social outcomes and enables schemes to scale more quickly.

The 3-D client value assessment tool measures value across 14 dimensions

DESIGN

1. Index reliably predicts farmers' experience
2. Covers appropriate activities
3. Covers appropriate risks
4. Enables productive investment decision-making
5. Minimizes gaps in coverage

DISTRIBUTION

6. Covered farmers are adequately informed of product details
7. Staff and agents are adequately trained, incentivized and supervised to inform clients and sell responsibly
8. Payment processes minimize liquidity constraints
9. Product is inclusive

DELIVERY

10. Product delivers adequate coverage for money
11. Benefits delivered in a timely manner
12. Procedure to deliver benefits is reliable and understood
13. Provider is responsive and proactive about questions, problems and complaints
14. Covered farmers receive evidence of coverage

6. NEW PLAYERS HAVE EMERGED

In 2008, the most common distribution channels were microfinance institutions which provided insurers with ready access to an aggregated pool of clients for simple credit life products. In 2018, microfinance institutions still play a major role in distribution, but insurers have partnered with a surprising range of distribution partners to reach new customers. These include small retailers, supermarkets, cooperatives, money transfer agencies, employers, tea factories, pawnshops, and, of course, mobile network operators. Making insurance a priority for these partners can be challenging, as core business requirements take precedence and insurance has to compete with other lines of revenues; but these channels have emerged as powerful conduits for insurance when incentives are properly aligned.

7. INTEGRATED BUSINESS MODELS

Over the last ten years, the provider landscape has shifted. While a few specialized microinsurance providers continue to excel and push the boundaries of the industry, insurance for low-income and emerging customers has become mainstream. In 2016, sixty of the largest insurers in the world were engaging with the low-income and emerging segments, compared to only seven in 2005. The possibility to use existing infrastructure, share services with other segments and cross-subsidize products has created a compelling case for large insurers to enter this segment.

8. DIGITAL REVOLUTION

The conversation in the last ten years has shifted from spreadsheets to blockchain; from paper forms to big data; and from hotlines to chatbots. Advancements in technology such as the ubiquity of mobile phones, better data analytics, national identification systems, satellites, and drones allow providers to reach new clients, automate back-end processes, improve risk identification and reduce costs. Further, insurtech providers are vying to disrupt the industry. Challenges around privacy and consumer protection remain, as data becomes more easily accessible and providers move from high-touch to low-touch distribution models.

9. ROLE OF GOVERNMENTS

Governments are increasingly using insurance to achieve public policy objectives, especially those related to universal health coverage, food security and climate change adaptation. We have seen an increase in the number of government-sponsored schemes worldwide that have partnered with the financial sector to improve efficiency. For instance, informal-sector workers and their families are often not covered by public health schemes because of difficulties identifying and enrolling them, and in financing their coverage in an efficient and equitable way. Government health schemes are looking to close this gap in population coverage by using innovative ways of targeting and enrolling excluded populations (including efforts by the National Health Insurance Agency in Ghana to

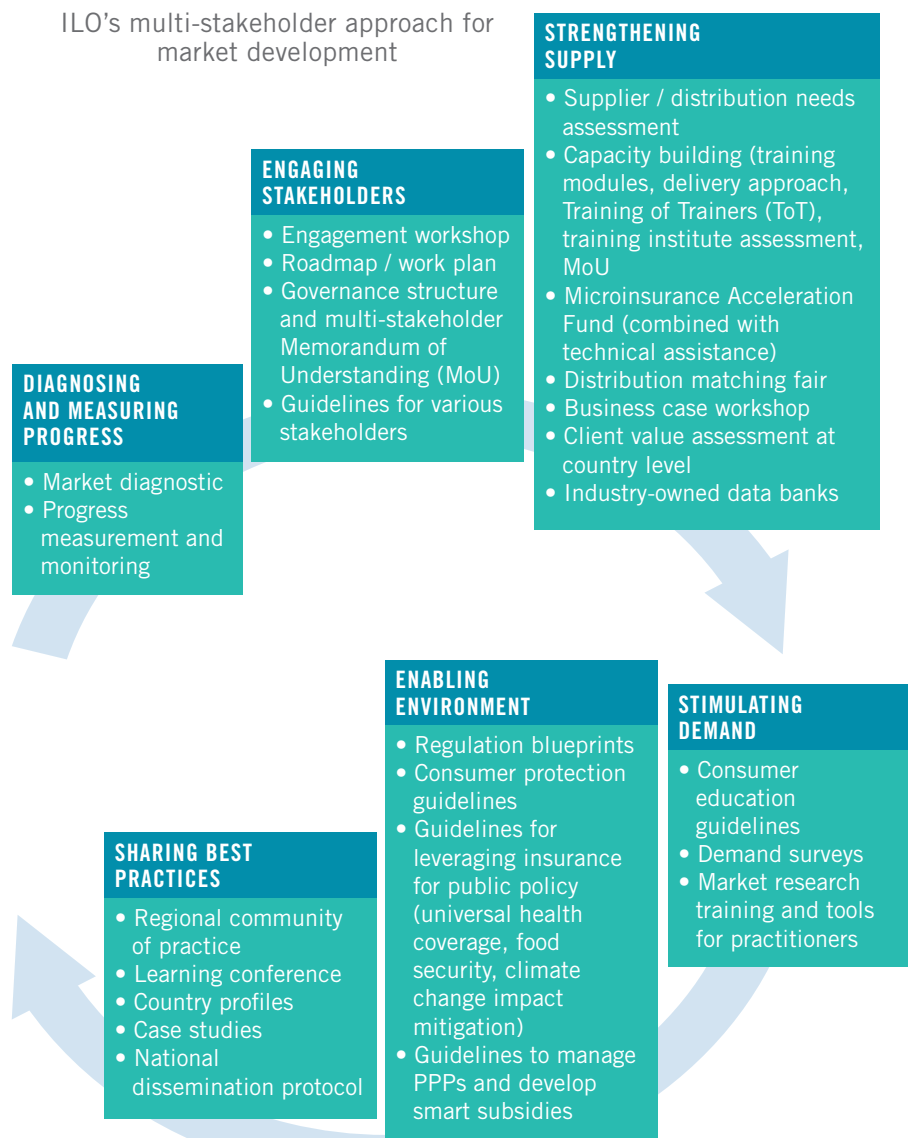
digitise renewals and claims). Similarly, there is consensus that insurance needs to be part of any national agricultural development strategy – integrating it as a risk mitigation tool to make the value chain more resilient.

10. MARKET DEVELOPMENT APPROACH

Despite the progress made, there remains an urgent need to accelerate the growth of inclusive insurance markets in many countries. Ten years ago, the focus was on working with individual insurance providers and building their capacity. This proved insufficient. A structured market development process, on the other hand, that brings together the full range of stakeholders, from regulators, ministries, industry associations, insurers and distributors has been more effective. A multi-stakeholder development approach (see figure) in markets such as Zambia, Ethiopia, Senegal, Nigeria, Indonesia, Bangladesh, and the Philippines has led to a larger number of clients being covered, and greater value and diversity of products on offer.

The ILO is pleased to celebrate ten years of promoting quality insurance at scale. Join us as we take stock of where we are, what we've learnt and how we plan to continue forward. Throughout 2018, we will share lessons and experiences from the past and present new ideas for the future.

ILO's multi-stakeholder approach for market development





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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.

