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TEN YEARS OF IMPACT INSURANCE

The future of Impact Insurance



The ILO's Impact Insurance Facility is celebrating ten years of supporting the insurance industry to contribute to social and economic development. Over this period, we have grown and evolved alongside the industry. Markets, products, players and technology have drastically changed during the past decade, as outlined in the [recent brief](#).

Now that we have [looked back](#), it is time to scan the horizon and see what lies ahead. This review considers future trends, and the work that the ILO is doing, and could be doing, to enable the insurance industry to contribute to the sustainable development agenda in the coming years, as illustrated in Figure 1. This involves not only extending valuable coverage to unserved market segments, but also collaborating with governments to achieve public policy objectives by managing risks more effectively.

This prospective look at how insurance can contribute more effectively to development considers both supply and demand issues, as well as technological developments, demographics and changes in public policy.

SUPPLY

1. Redesigning products: Technology has long helped insurers better manage and distribute insurance. Now it is drastically changing the nature of the products themselves. With [digital solutions](#), such as telematics and the Internet of Things (IoT), allowing instant individual pricing, real-time data collection and automatic claims processing, new kinds of products are emerging in mainstream insurance such as usage-based and on-demand insurance.

The insurance industry is bracing itself for these changes, but what do they mean for the development agenda? The experience of other financial services for low-income customers provides clues for how insurance will also likely change. Loan eligibility is already being assessed based on algorithms analyzing mobile phone usage and social media data. Risk profiling will not be far behind as insurers gain experience in handling alternative data sources. Indeed, these technologies will be game-changers by reducing operational costs through automation, using alternative information on customers for risk assessment and pricing, and utilizing artificial intelligence to enable better servicing. Access to data and computing power, along with innovative thinking on risk profiles and analysis, will lead to new insurable events, fuller risk profiles, and the capacity to penetrate under-served markets more efficiently.

Technology is also enabling insurers to move from just carrying risks to provide broader range of services to better prevent, mitigate and manage risks. By providing risk management advice and relevant value-added services, it may enable insurers to provide a more attractive offering to underserved market segments. This promise is yet to be realized, but

providers that we are working with are using digital technology to build more [client-centric products](#), [improve risk identification](#), and enhance [client servicing](#) and communication.

It is important to note, however, that these technological advancements come with risks themselves, especially as it pertains to data protection and client privacy. The exclusion of high risk persons due to the higher availability of information about individual policyholders to insurers is another important concern that we need to keep in mind.



2. Reimagining microinsurance companies: In the last decade, there has been a trend for countries to create special regulatory categories for microinsurance providers. However, the business case for exclusively serving low-income households is challenging, and an easier model is to have a microinsurance unit in a larger company because it enables the unit to leverage shared services. Moving forward, we expect to see a trend away from stand-alone microinsurers, to dedicated “emerging consumer” teams within insurance companies, especially companies that embrace a long-term commitment to this market segment, and are willing to go through the necessary change management process. These dedicated teams have an independent balance sheet, but can use a shared services model to leverage existing systems and resources thereby making the entry-cost more palatable, following the model deployed by successful organizations, such as [Pioneer Insurance in the Philippines](#) and Britam in Kenya.

3. Reimagining insurance companies: Traditional insurance company structures will not be fit for purpose in the coming decade. Too bold? Perhaps, but the cost structure is a particular concern for insurers, as they are under threat from technological advancements that are likely to upend their standard

business model. Companies that have succeeded in serving the low-income market, however, have learned considerable lessons about creating efficiencies that are relevant for their conventional business as well.

For example, insurers trying to serve new market segments through alternative distribution points, where the business is based on lower margins per policy and great volumes of policies, are likely to require significant restructuring. Yet bringing about such change in a large and traditional organization is a frustratingly difficult task. To tackle it, we have [formalized some lessons](#) learned from such transformations. One of the main conclusions is that, to gain trust and meet clients' ever-changing needs, an insurer requires an organizational architecture. This architecture would comprise of human resource management, institutional culture, and organizational structures, all of which empowering it to listen and respond to clients. This is a relevant insight for all market segments. Another conclusion is that companies need to be structured to serve customer segments, rather than along traditional business lines like property, life and health.

4. PPPs to manage risks posed by climate change. Climate change is both an opportunity and a challenge for the insurance industry. It is an opportunity because it makes businesses and households feel more vulnerable, and therefore they may be more likely to include insurance in their risk management toolkit. But the changes in weather patterns, and the need to diversify risks across geographies, requires large risk pools that are too much for one insurer to bear. Governments used to deal with these risks in their disaster management programmes, but they are increasingly partnering with the private sector to make the cost more predictable.

This brings together unusual partners: the public and the private sector speak different languages and have different motivations.

Although the idea of these new business models (public-private partnerships) is compelling, how it gets operationalized can be challenging. To accelerate the learning curve among policymakers, the ILO is facilitating a [peer learning platform](#) enabling members from government agencies – ranging from ministries of agriculture and finance, central banks, planning commissions, and insurance regulators – to share their experiences and learn from each other about making agriculture and disaster insurance more accessible and responsible. One potential solution to the PPP dilemma emerging from these discussions is for insurers to come together and form a risk pool that can be used to achieve public policy objectives, as is being tested in Kenya and Ghana, instead of procuring the services of individual companies.

DEMAND

5. Redefining emerging customers: Over the last ten years, we have shifted from microinsurance to inclusive insurance, recognizing that the vast part of the potential market is unable to access insurance. Moving forward, we will have to shift our understanding of our client base again as these very clients experience rapid change. The characteristics that define the inclusive insurance space may no longer hold in the future. For instance, customers have been considered hard to reach, with a limited spending capacity. With [mobile penetration \(including smartphones\) rising](#) in many emerging countries, improving literacy rates and [rising income levels](#), these constraints will alleviate for significant portions of the excluded population. As more households become middle-income, they will have an increased ability to pay for insurance, and they will have new needs, for example to protect assets and livelihoods. There is also an urgent need to cover the insurable interests and needs of small businesses, another under-served market segment. If small enterprises are to grow and create jobs, they need to have access to both productive and protective inputs.

Figure 1: The contribution of insurance to the Sustainable Development Goals (SDGs)

Insurance for social and economic development	Related SDGs: either responds to and/or reduces risk	Overarching SDGs	Insurance can have an indirect impact on related SDGs
Climate change and food security	13 CLIMATE ACTION 2 ZERO HUNGER	5 GENDER EQUALITY 17 PARTNERSHIPS FOR THE GOALS	1 NO POVERTY 10 REDUCED INEQUALITIES
Health and social protection	3 GOOD HEALTH AND WELL-BEING		14 LIFE BELOW WATER 15 LIFE ON LAND
Decent work and financial inclusion	8 DECENT WORK AND ECONOMIC GROWTH		9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 16 PEACE, JUSTICE AND STRONG INSTITUTIONS 11 SUSTAINABLE CITIES AND COMMUNITIES

6. Educating customers: Not understanding insurance remains a major obstacle to the development of inclusive markets. In the coming years, that might begin to change, at least in some countries. Each interaction with the client is an opportunity to educate, which can be enhanced through new communication tools. We no longer have just one window to explain a product and receive information from a client. Technology enables frequent interactions, gradual education and constant feedback – which are needed and welcome. Over time the business model needs to move from high-touch to low-touch distribution models, from an advice-based approach to self-service, to make small ticket insurance viable. The timing of that transition, however, is delicate. The market really needs to fully understand insurance before they will be willing to adopt low-touch methods, so heavy investments in client understanding are important upfront contributions to developing the market.

Will the [move from high-touch to low-touch channels](#) be inclusive or is there a risk that certain segments who are less digitally inclined will be excluded, such as the elderly, rural populations and women? Insurers need to consider these constraints and provide alternate channels for these population segments.



Even with educated consumers, the uptake of insurance will only succeed if stakeholders focus on clients and their needs. As products and technology evolves, it is important that the new products provide value. The ILO has been a relentless proponent of client value and over the years we have implemented a number of tools (e.g. [PACE](#), [3-D assessment for agricultural index products](#)) and programs ([Practitioner Learning Group on client value](#), [research series on impact insurance](#), [client value training](#), [e-learning on market research](#)) to build capacity within the industry.

BRIDGING THE GAP

7. Providing integrated risk management solutions: The current trend toward client-centricity has illuminated an important reality – it is not possible for consumers to manage all of their risks through insurance. Of course insurers would never have argued otherwise, but if the objective is sustainable development, rather than just selling more insurance policies, then a more integrated approach to support risk management is required.

Consequently, we expect financial service providers to start offering integrated solutions that bundle different forms of protection – such as an emergency loan or commitment-savings device – that are unlocked when risk events happen. If these products include an insurance component for high cost yet infrequent events, plus basic prevention measures to reduce the households' exposure to risk in the first place, then insurance could have a much greater impact on emerging consumers.

Some of these integrated products are being tested, especially those specifically targeting health risks, as illustrated in this [recent paper](#). However, few organizations have developed products that combines savings, credit and insurance. That is likely to be the next frontier.

8. Working with the disruptors: Distribution channels such as microfinance institutions, retailers and utility companies have been in the inclusive insurance driving seat because of their access to customers and sales infrastructure. In some cases, insurers could even lose their role as the primary insurance providers, as other types of organizations, which are more nimble and better able to respond to client needs, acquire insurance licences.

New partnerships with fintech and insurtech firms bring opportunities for insurers to reach customers directly and bundle insurance with array of services. But these firms are disruptors and have vastly different cultures and operations than the more traditional insurers. To work together, insurers will need to think more creatively about the value they bring to the partnerships and how the new models can allow them to better reach and service customers. New partnerships are only possible if insurance contributes to the partner's core business or if insurance encourages client behaviours that lead to better production decisions.

PUTTING IT ALL TOGETHER

9. Being responsible: One defining characteristic of this market that has proven particularly stubborn is the lack of trust in the insurance industry. Limited presence, low brand recognition and a shaky history of customer service has led the insurance industry to be [less trusted than distributors such as mobile network operators](#). Therefore, insurers need to make a concerted effort to change this image, and must collaborate if the industry's reputation is to change. The ILO has been promoting a *responsible insurance* agenda within the industry. Responsible insurance provision requires the delivery of *appropriate* products in an *accessible, transparent, fair, responsive* and *respectful* way to informed consumers who can *use* those products effectively. Unfortunately, it may take a decade for this new approach to take root.

A major dimension to this culture change is transparency. The lack of trust is partially driven by opaque pricing and the dubious claims handling practices sometimes found in the industry. However, business as usual is not going to grow the market. A transition to transparency will enable customers to compare like with like, and have greater confidence that they know what is and is not covered, so they do not feel like submitting a claim is a shot in the dark. Such a transition will be hard for individual companies to make on their own – national insurance associations need to take a much stronger lead on these issues to start the process of refurbishing public opinion.



Hopefully regulators will also play a greater role in creating trust, but confidence in government institutions is lacking in many countries. Unfortunately regulators and insurers often have an adversarial relationship. But to support market development, the two parties need to team up, each pulling their oars in the same direction, as neither will be successful without the other.

Will we see progress on this front in the coming decade? Certainly it will differ from market to market, but countries that generate the best results will be where regulators and the industry work together, and agree on appropriate mechanisms for protecting consumers that do not discourage insurers from reaching out to new markets. It is important to protect customers, but not protect them out of the market.

10. Building insurance markets: The insurance industry has the potential to make significant contributions to economic development at both the micro and macro levels. At the micro level, in a developed insurance market, households and enterprises are more resilient, and more willing to make productive investments. At the macro level, where regulations allow, insurance companies can contribute to infrastructure and capital market developments, especially life insurance companies that can make long-term investments. The industry can leverage this potential to make significant contributions to the SDGs without jeopardizing their financial bottom line. To fulfil that potential, a systematic market development programme is needed in many countries that are stuck in the early stages of development. By bringing together the full range of stakeholders --, from regulators, financial ministries, industry associations, insurers and distributors – it is possible for them to achieve the main goal of providing quality insurance at scale.



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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.

