Guest editorial: Microinsurance – linking value and viability

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MICROINSURANCE HAS EVOLVED DRAMATICALLY over the last decade as one of the solutions to mitigate risk. Vulnerability to risk is a constant factor in the lives of the poor and a cause of persistent poverty. New impact evidence shows that microinsurance products can provide financial protection, reduce vulnerability, and improve access to critical services for low-income households (De Bock and Ugarte Ontiveros, 2013). Furthermore, innovations in product and delivery have led to more people having access to microinsurance. The main challenge ahead is to keep balancing client value with business viability so the products offer more and more value to low-income clients as the markets develop.

The landscape studies covering Africa, Latin America and the Caribbean, and Asia and Oceania (McCord et al., 2013a, b; MicroInsurance Centre, 2013; Oza et al., 2013) identified microinsurance products in a total of 82 countries. The data confirms a significant growth in coverage of lives and properties in all three regions with an estimated total of 262.7 million. The regional spread represents 17 per cent in Latin America and the Caribbean (data till 2011), 17 per cent in Africa (data till 2011), and 66 per cent in Asia and Oceania (data from 2010 to 2012).

This is very promising; however, looking at the range of products, it becomes clear that more innovation in product design and distribution is needed to address some of the priority risks that low-income people are facing on a daily basis, notably health-related issues, natural disasters and loss of productive assets. Life policies and credit life currently constitute almost 67 per cent of all products sold. Some countries, such as Colombia, Mexico, Peru, India, the Philippines, and South Africa have made notable progress in establishing markets but still need to go beyond life and provide good examples that can be copied and even improved upon, as one of the landscape studies on the evolutionary nature of the microinsurance sector (McCord et al., 2013b: 37) concludes. Michael McCord, Bert Opdebeeck, Katie Biese, and Manoj Pandey in their article on data and landscapes explore the fact that this data is more than statistics by allowing stakeholders to analyse performance and develop better services.

When managed well, these simple microinsurance products are viable for providers while offering often better value to clients than informal alternatives. But microinsurance has the potential to do much better in terms of both client value and business viability. There is no silver bullet and plenty of strategies for how to move microinsurance development one step further. This special issue discusses

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three solutions – value-added services, bundling with other financial services, and use of mobile phones – which are within the capabilities of many providers and can improve client value, while increasing scale and efficiency.

In the article on health microinsurance, John Pott and Jeanna Holtz discuss value-added services (VAS) such as preventive health care services, medical advice hotlines, and pharmacy discounts. When bundled with health microinsurance (HMI), which is often limited to hospitalization benefits, VAS has the potential to improve both client value and business viability of insurance. For example, there is emerging evidence that by promoting earlier diagnosis and the provision of primary care, the frequency and intensity of inpatient care is reduced, and hence hospital claims costs of HMI schemes with which they are bundled are reduced. Similar use of VAS can be applied to agriculture insurance, with additional value arising from VAS which may improve production behaviours of farmers.

As shown in the article by Craig Churchill, Aparna Dalal, and Josh Ling in this issue, distribution of microinsurance through microfinance institutions (MFIs) is evolving beyond basic credit life insurance policies. The authors identify the main challenges and offer 10 recommendations. One of the promises of delivering microinsurance through MFIs is that solutions which bundle insurance with other financial services can offer more value to both low-income persons and financial service providers. For example, savings and insurance are complementary, with savings being used for low severity, high frequency risks, and insurance for high severity, low frequency risks. If bundled together they can offer a better risk management solution than as stand-alone interventions. The same can be said about credit: insurance bundled with credit often unlocks access to credit for micro entrepreneurs, especially small-scale farmers. Although cash transfers may act as a substitute for insurance, their impact can be enhanced by combining them with insurance. Additionally, tapping into cash transfer systems can be cost-efficient and remove obstacles to access microinsurance.

Another win–win frontier is the use of mobile phones and other new technologies to deliver microinsurance as discussed in the article by Pranav Prashad, Jeremy Leach, David Saunders, and Aparna Dalal. Making use of mobile phones should increase the efficiency of transactions across the entire value chain, it can enable exceptional scale and it can, although not always, improve client value. The challenge in the quest for more efficiency through technology is to avoid losing client 'touch' which can fuel distrust, hence decrease demand. More research is needed to understand which client 'touch points' can be automated, and how, in order to adopt more efficient technology platforms for microinsurance.

Besides smart win–win strategies, distribution remains the main success factor for a low-ticket, high-volume business such as microinsurance. Over the last decade, we witnessed an emergence of new distribution channels and business models to reach large numbers of low-income clients. Mobile insurance policies described in the article by Pranav Prashad et al. reached scale quickly through mutually beneficial partnerships with mobile network operators (MNOs). More traditional channels continued to fuel scale with 70 per cent of MFIs offering insurance as reported on the MIX Market. As discussed in the *Crossfire*, specialized intermediaries keep pushing local innovation through adaptation of global best practices. All the new partnerships have value only if microinsurance can solve specific problems of the delivery channel such as delinquency for MFIs or churn for MNOs. New, often unregulated partnerships also have risks, as discussed in specific examples in the articles on technology and consumer protection, therefore good partnership management counts more than ever.

Creating access to microinsurance is of course not enough. It has to 'work' and enable low-income consumers to effectively use microinsurance to manage the risks they face. This is the core of consumer protection, which is discussed and illustrated with two country case studies in the article by Emily Zimmermann and Barbara Magnoni. This article proposes an analytical and comparative framework for consumer protection measures, and demonstrates clearly that consumer protection efforts can further support the value proposition of microinsurance by increasing trust and sustainability.

It is important also to note here that with the increase of insurance sold and managed though mobile phone applications, consumer protection has to take a multi-sectorial approach, especially when it comes to regulatory issues. Different sectors and regulatory bodies need to engage in a dialogue with a view to negotiating the right balance between protecting consumers and enabling outreach (see the article on technology by Pranav Prashad et al.).

In summary, with the growing know-how and more actors and resources, microinsurance is set for another successful decade. Articles in this special issue discuss some key ingredients to create the magical balance between clients' needs and business objectives. In the short term the imperatives for viability and value may pull organizations in opposing directions and create difficult trade-offs. Yet in the long run there is no trade-off.

Viability and value are inextricably linked: a product cannot continue to offer value to clients unless it is sustainable, and a product is unlikely to sell well over time if clients do not see value in it. But it is important that practitioners factor in the extent of market development when deciding what products to offer. Products that are not ready to be adopted by consumers or that are too difficult to administer, and hence do not create positive market discovery, can do more harm than good, and put off progress for several years.

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