Panel 6: Inclusive Insurance: Building Resilience through Partnerships

Session Synopsis
Inclusive insurance refers to insurance products which are designed to reach those who do not yet have access. Those without access are primarily poor and low income households, the marginalized and small enterprises.

Communities in rural and remote areas tend to have fewer ways to mitigate risk than people living in urban areas. Traditionally in the Pacific the first reaction after a natural disaster or major unforeseen event is to look to government, donors or NGO community for financial assistance. Insurance offers the potential to build internal resilience within an economy.

The uptake of micro insurance products in the Pacific has benefited from the introduction of mobile technology to reach populations in both urban and remote areas, and ability for customers to use mobile phone credit to pay for their insurance products.

A major challenge to inclusive insurance at present is the current market, which generally lacks understanding about insurance and risk transferal. Education about the benefit of insurance and spreading risk is needed in most parts of the Pacific to support further uptake of insurance products. Education of insurance underwriters also is important to raise awareness of the potential of the micro-market.

In Papua New Guinea the mobile network has enabled broad distribution, and together with targeted and patient marketing has led to increased awareness and understanding about what microinsurance is and how it can be used. And distribution by a mobile phone network operator allows for phone credit to be applied to insurance premiums. Bundling of insurance products and services has proved popular in PNG – more than in other parts of the world.

Growth in the use of microinsurance has occurred as a consequence of providing some conventional insurance products to a relatively new market, along with new customer-designed products and services specifically for Pacific circumstances.
There’s an increasing interest on the part of some regulators and policymakers on bringing clients into the formal insurance sector and working with the insurance industry to reach the excluded, rather than on microinsurance products offered outside the formal sector that may have potential to scale.

Growth in the insurance market for the excluded is dependent on providing customer based products and services, having established distribution partners, experienced underwriters familiar with risks in the Pacific, and an engaged regulator and policies conducive to microinsurance.

Microinsurance has not been able to gain traction in recent years due to a lack of understanding about what insurance is all about, its benefits, the concepts of risk, and risk management. Insurance is about risk transfer, which can be a challenging concept to explain. There is also a tendency in the Pacific for people to turn to or wait for government to assist in times of difficulty or crisis. On the industry side, there is limited loss experience of underwriters in the Pacific in developing cover, and awareness of the potential in developing cover for those excluded from conventional insurance.

Successful microinsurance requires obtaining small amounts of money from a lot of people. Viability is all about volume and focus on simplicity – of communications, products, pricing, and terms and conditions. Adapting premium payments (tied to claims payouts) to suit customer cash flow has also been beneficial.

When introduced in PNG, there was a concern that insurance wouldn’t be accepted because people would rely on wantoks. But once insurance was explained, take-up by the market was rapid. A simple range of three levels of cover was introduced and it was assumed that most would purchase the mid-price product, but surprisingly, a substantial number purchased the premium product. People were also interested in buying multiple products. Microinsurance is successful in PNG because of the experience and resources the partnership (a mobile network distributor, product provider, and underwriter) was able to contribute together to break the price barrier. The main challenges at present are the very creative approaches in submitting false claims, and customer churn. However, the latter is more about people losing or changing phones, or changing phone numbers and falling out of the insurance program than dissatisfaction with the insurance product.

Building the premium pool is crucial – if it is not big enough, a market will not establish. There is a general perception in the population that insurance is not needed, largely because little is known about what it is and how it works. Insurance companies need to simplify insurance to make it more
understandable to people. While microinsurance is succeeding in PNG endeavors by providers in Fiji have not been as successful. As a consequence, the Reserve Bank of Fiji has initiated a model insurance framework, with several insurance companies coming together to offer one product. The bundled product comprises life and general (health, fire, personal accident, etc.) insurance, with a simplified premium, application form, policy, and streamlined administration. It is a brand new market for underwriters, with government encouraging participation by offering incentives in the form of tax and stamp duty relief. The partners see this as an important innovation in the Pacific and are optimistic that it will work or at least provide useful insights for the future.

Crop insurance is the next big challenge in the Pacific – and opportunity, given the prevalence of agriculture in the Pacific. However, crop insurance is complex with premiums to date being too high to appeal to smallholders. There are crop insurance products available, however, distribution of these products in rural and remote areas in a volume sufficient to make it viable, is the main challenge.
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