

# Micro insurance and social protection

## 2019 IIU International conference

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## Global perspective

- Article 22 of the United Nations Declaration of Human Rights (1948) states that, “every member of the society has the right to social security,”
- Approximately 75% of the world population is inadequately protected, and approximately 40% lack even basic protection.
- The ILO identifies Microinsurance as one possible instrument to mitigate risks and reduce vulnerability of low-income households, particularly in the informal economy
- Microinsurance is not conceptualized as a mechanism that competes with or replaces public social protection. It plays a complementary role within the broad context of a comprehensive social protection framework.

## Local perspective

- Social Protection policy 2015
- The policy is an integral part of the Vision 2040 which underscores the importance of social protection in **addressing risks and vulnerabilities**.
- Social protection system contextualized to consist of two pillars -**social security** (*preventive & protective*) and **social care and support services** (*vulnerable individuals who are unable to fully care for themselves*).
- Social protection recognised as a secure platform upon which individuals can build productive and sustainable livelihoods

# Whether Global or Local;

## Social Protection:

- Is a collection of programs that address risk, vulnerability, inequality and poverty.
  - **Protects** the chronically poor
  - **Prevents** the vulnerable from being decimated by shocks
  - **Promotes** livelihoods of those with the capacity to work

# Dimensions of Social protection

## ► Social protection Includes:

- Social Assistance (Cash Transfers, School Feeding, Targeted Food Assistance, Subsidies)
- Access to free education, Access to free Health Services
- Old Age Pensions
- Old Age support
- Social protection programs have focused mainly on transfers of resources to the vulnerable

## Where should the focus of social protection be?

- The true focus should be on strengthening social protection systems that will bring long-term potential for transformation;
- Social Protection that motivates production as opposed to consumption only;
- Social protection that is contributory – more sustainable.
- **Microinsurance is one such option**

## What is MI all about?

- **Microinsurance** is about protection of low-income people against specific perils
- MI involves payment of regular premiums proportionate to the likelihood and cost of the risk involved.
- In Africa, MI has been growing at an average of 200% over the last 5 years (*ILO Impact Insurance*)
- Largely provided through collaboration with National Governments
- More active interest by Commercial Insurers - 33 of the world's 50 largest insurance companies offer MI (*ILO Impact Insurance*)

# Experience is positive, but Key Questions remain outstanding.....

- Social protection (Microinsurance) for who?
- What has been done so far? What are the experiences?
- What are the success factors?
- What strategies need to put in place to allow players deliver impactful social protection ?



# Social protection for who?





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## Social protection for who?



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# Social protection for who?



How about....?



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## How about these.....?



Locherep area, people taking a rest. They come from distant places with empty stomachs, under hot sunshine. Going back happy with some food.

## So....?

- Microinsurance is suitable for low income – (“**Near Poor**”; “**Upper poor**”) but not for no-income (“**Core poor**”)
- Lower-income formal sector workers
- Informal sector workers - Good target (Informal 51% Vs. Formal 49%)
- The point is “ATP” not just “WTP” – even those below the  $P_0$
- Above all, value proposition is critical

So....?

- Microinsurance is capable of providing protection to underserved people of both formal & informal economy
- **It will deliver meaningful social protection only if basic public social protection systems are available**

## What is the current status? What are the experiences?

- Activity in Microinsurance is generally low and few insurers offer more than credit life policies.
- Some of the extended credit life policies provide coverage against natural disasters as well as funeral benefit for family members.
- The 2017 Act provides for a two-tier licensing system which anticipates **lower compliance requirements** for Microinsurance providers and intermediaries.
- Dedicated regulation for MI and MIO (**proportionality principle**)
- One dedicated MIO and some other players providing MI products
- Insurance players are getting more active in the field of MI but Premium from Microinsurance still small
- **Experiences** – Extremely high loss ratios; High Average Costs of operation; Poor understanding by clients;



## What are the success factors?

- Stand Point: MI can deliver business value if the equation is got right
- Active role of Government (policy framework highlighting the role of different stakeholders)
- Patient Capital/Investment
- Scope of cover being offered Vs. the opportunity cost of committing the near-to-nonexistent resources
- Standardization of product offerings – simple & standard
- Distribution model – **Selling Vs. Buying? Is IT the answer? Partnerships – MFIs, SHGs, SACCOs, NGOs, etc - Regulatory flexibility?**
- New Microinsurance delivery channels (e.g., shopkeepers, **Bank Agents, points of sale**) that cater to individual clients as the majority of the population is not organised in groups. These channels possess support structures to assist clients in processing claims - **Regulatory flexibility?**

## What are the success factors?

- Revisiting the processes to deliver a lasting experience – **Rapid** Claims processes.
- Possibilities of alternative modes of funding for insurance – aside from cash???
- Develop Products in a participatory way, involving all actors (including potential customers).
  - **Simplicity, Affordability and easy to use**
  - **Product bundling to increase accessibility**
  - **Value and Value added services**
- Organised lobbying frameworks – **MI TWGs**
- Consumer education and public awareness.



## What are the success factors?

- Bigger volume brings opportunities to pay claims; claims increase client's confidence and belief in the value of MI.
- Clients are willing to pay for good value, not necessarily cheap
- Local/Native Champion to drive particular segments
- Failure is inevitable – It is not the end but an experience to inform new strategy
- ***Innovation, Innovation, Innovation.....***

# Innovation – A magic Bullet?

- **Myth** - Innovation is all about technology
  - **Reality** - Innovation is about finding new ways to serve customers better
- **Myth** - Innovation is about good ideas
  - **Reality** - Innovation is about ideas, processes, culture, action and execution
- **Myth** - Innovation emanates from a lone genius
  - **Reality** - Innovation is very often the result of collective intelligence
- **Myth** - Innovation is about original ideas
  - **Reality** - Innovation is about finding better solutions to problems
- **Myth** - Innovation is about being the first mover
  - **Reality** - Fast followers can also innovate and at times surpass first movers

## The Question still remains.....

**How can we best drive uptake and usage of MI services so as to play a visible role in SP space in a country where about 30% of the population struggle to get a meal and 51% are engaged in informal undertakings?**

We may need to rethink our definition of Insurance, our application of the principles and also revisit our strategies!!!!

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