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Micro-insurance: big business for insurers

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Why the need for micro-insurance?

South Africa as a developing country requires all South Africans to be financially included in the formal financial services sector.

Financial inclusion was a key objective in the 2004 Financial Sector Charter.

Mzansi bank account initiative. Provided access to the previously unbanked people. Successful. Certain regulatory requirements relaxed – low income accounts exempted from “Know your Customers” – FICA.

Since the launch of Mzansi there are 3 million accounts active (2011)

South Africans need to understand the importance of insurance and how it reduces personal risk.

Why the need for micro-insurance?

Treasury believes there is a need to promote better access to South Africans to afford insurance and meet the risks they face.

National treasury's policy framework is to achieve the following objectives through financial inclusion:

- Extend access to a variety of good-value formal insurance products appropriate for the needs of low-income households
- Provide for the formation of regulated and well-capitalised micro-insurance providers
- Lower barriers to entry – encourage broader participation in the market;
- Enhance consumer protection
- Facilitate effective supervision and enforcement (support the integrity of the insurance market as a whole)

Proposed regulatory framework for South Africa

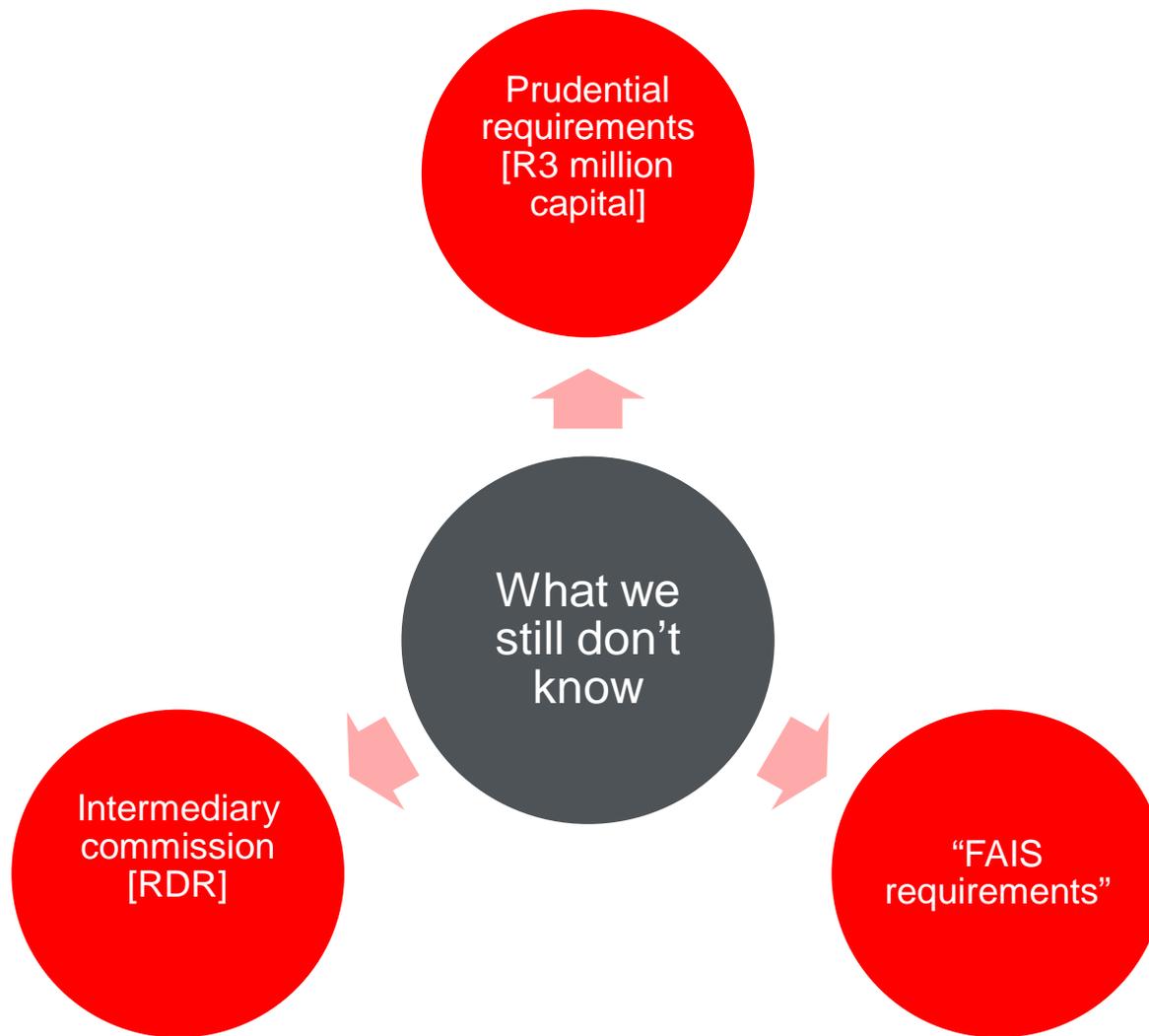
- Initially it was proposed that micro-insurance would be governed by a separate Act.
- However, it has now been included in the Insurance Bill

Insurance Bill proposal

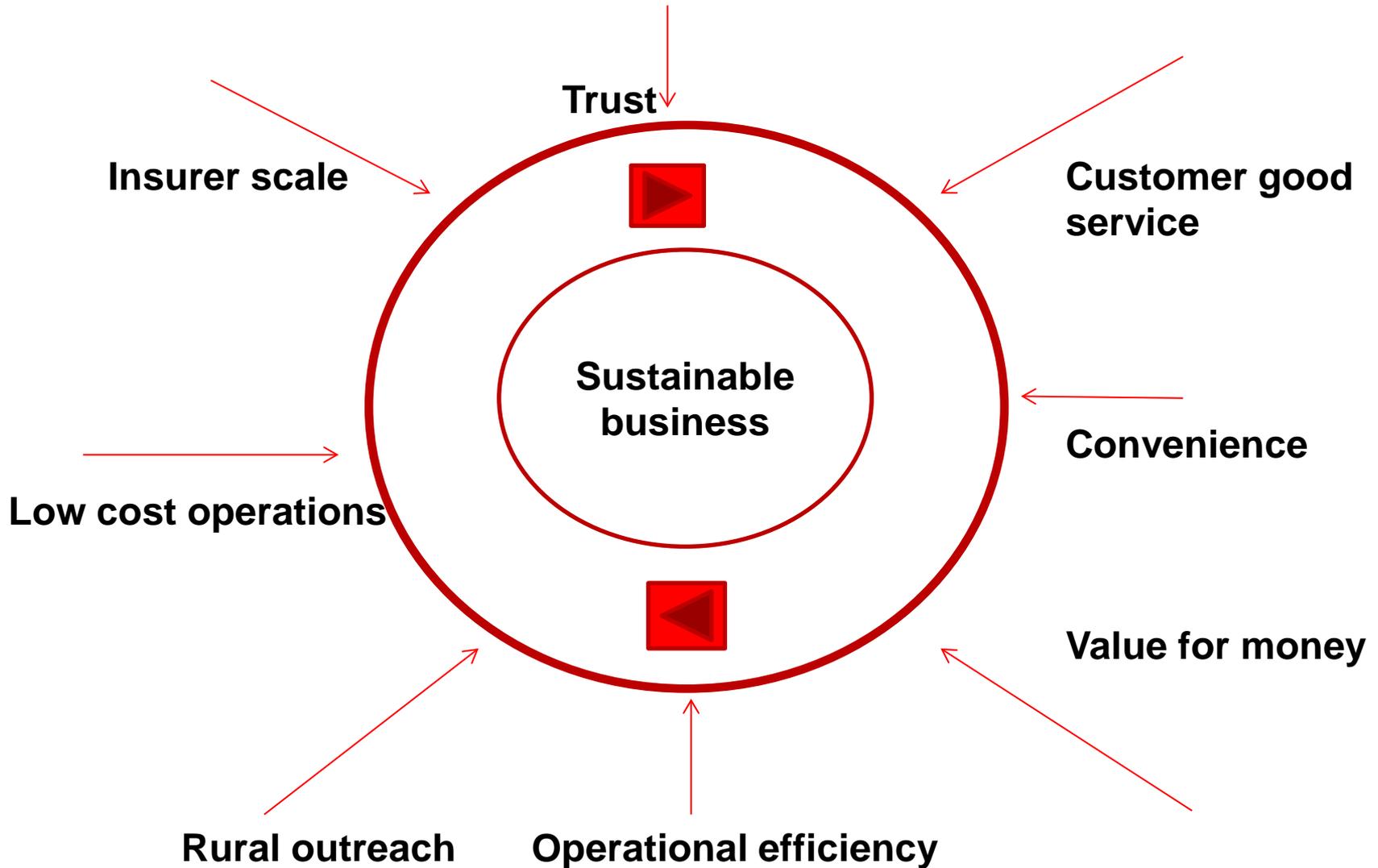
- You need to be licensed as a micro-insurer
- Section 20(1)(a) of the Bill : A person that intends to conduct micro-insurance business must be:
 - A profit company; or
 - A non-profit company registered under the Companies Act; or
 - A co-operative registered under the Co-operatives Act.
- Includes state owned entities
- A person's primary business activity must be the conducting of insurance business and operations arising directly therefrom

Insurance Bill proposal

- “Micro-insurance business” will be:
 - Life insurance
 - Risk includes subclasses eg death events only in life events, group disability individual disability
 - Credit life
 - Funeral
 - Non-life insurance
 - Motor
 - Assets
 - Agriculture
 - Consumer credit
 - Accident & health
 - Legal expenses
 - [Liability – but only if it relates to the above classes]
 - Aggregate amounts to be prescribed [R50 000 – R100 000]



General aspects of micro-insurance for success



General aspects of micro-insurance

- Scale: infrastructure must be able to serve large numbers of people – physical footprint
- Depth: reach lower income earners and remote people
- Cost: to clients (reasonable and affordable)
- Speed of claim settlement
- Premium collection (creative and convenient)
- Communication with clients (plain and easily understandable)
- Trust: brand and well-known parties (piggyback relationships)

Micro-insurance and Coca-Cola

- Coca Cola in 1856:

- Pharmacist John Pemberton developed a unique formula for a beverage the beverage was sweet and refreshing
- When he shared with friends and family – rave reviews
- Gave it to a local pharmacy to sell – in the first year there were only nine sales of the drink per day. Today 1.8 billion coke bottles per day

- Micro-insurance is like Coca Cola

- People were reluctant to spend their hard-earned money on something that appears unappealing. Insurance appears to be unappealing
- Pemberton succeed by giving away free coupons. First in the history of marketing that free coupons were given for a product
- Coca-Cola was given for free – brand developed, brand loyalty and value

Ghana case study



- **MicroEnsure** underwriting, product design, claims management, reporting, **Tigo** Mobile Provider, **Vanguard Life** Insurer, **Bima** Mobile technology provider
- Micro-insurance offered to Tigo customers on an opt in basis (free)
- A user merely had to visit a Tigo office, sign up for the product, provide the person's details and the details of the next of kin
- Automatic coverage – insurance cover was based on monthly airtime usage
- By February 2012, exceeded one million customers in Ghana



Ghana case study

- Trusted brand
- Tigo – paid premium based on cell usage
- Used innovative marketing appearances
- 500 claims paid in the first year of product launch
 - Simple
 - Transparent claims operation
- Similar examples in Kenya (Airtel)

Treating customers fairly

- Imperative for the low income group.
- Insurance needs to be seen as an essential
- Products must be developed to be:
 - simple
 - cover crucial risks
 - benefits must be tangible
 - low premiums
 - comprehensive cover
 - easy and flexible payment options
 - develop rating factors that do not involve the policyholder
 - fast claim payments

Why is micro-insurance an opportunity?

LSM	2004	2014
1-5	67%	41%
6-7	19%	40%
8-10	14%	19%

- We have the market:
 - only 38% of adults working fulltime have life cover or like insurance in their own name
- In general insurance levels have risen significantly in the period 2004 – 2014 from 41% to 60% over the past 10 years with a 6% growth year-on-year
- But we need to invest in education and product development

The logo consists of a stylized, upward-pointing chevron shape in a gold color, positioned above the first letter of the text.

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