

A focus on Microinsurance: Milliman's Michael J. McCord discusses commercial potential with insurers in Indonesia and Malaysia

Microinsurance is commercially viable and has significant potential to provide a sustainable profitable stream of revenue for insurers in Asia. This was the key discussion point by Michael J. McCord, Managing Director, MicroInsurance Centre at Milliman during industry briefings in Jakarta and Kuala Lumpur recently. Senior leaders from life, property and casualty (P&C) and health insurers confirmed their interest in microinsurance with their participation in these seminars. Michael, who has gained recognition as a global authority on the subject of microinsurance over a 25-year period, presented an approach to product and market development with case studies from his work across 75 countries. Michael facilitated a lively discussion on what companies can do to make microinsurance work for them. Below is a summary of some of the points discussed.

Key takeaways:

- There is interest among insurers to add microinsurance to their product portfolio
- Several Asian markets, including Indonesia and Malaysia, have the potential for sustainable and profitable microinsurance
- Microinsurance needs a different approach from traditional insurance business

Commercial viability

One of the key takeaways from the discussion was around commercial viability. Insurers should think of microinsurance beyond the “social” element. Microinsurance has moved beyond being a CSR initiative. If done right, it can be both profitable and sustainable, as well as provide important value to low-income policyholders. Typically, insurers tend to consider adding microinsurance to their portfolio when the top end of the market begins to become saturated and competition puts pressure on their top and bottom lines. Strategically, it takes time to build a microinsurance market and an associated new client base so insurers cannot expect profitability immediately. Early and careful planning and development will result in multiple benefits. The direct benefit is monetary when the revenue reaches its potential. The indirect benefit is having a captive customer base that can potentially move to traditional insurance products as they enhance their economic status. An ancillary benefit is that some of the distribution and management efficiencies developed for microinsurance can also be applied to the insurer's other streams of business, often realising similar efficiencies and leading to healthier bottom lines across all products. Since the right demographics already exist, those that begin to introduce microinsurance will supplement their existing product lifecycle through market enlargement.

A big concern expressed by companies that prevents them from considering microinsurance has typically been the critical volume of policyholders required. Michael discredited this myth citing an example of commercially viable microinsurance in the Central American nation of Belize. The total population of Belize is under 400,000 people, tiny when compared with any Asian market's population count.

Rethinking microinsurance

Strategically, the approach to microinsurance requires a different mindset within an insurance company. Michael presented the SUAVE model for good microinsurance, a model that he has developed and utilised for most of his career.

To be successful, microinsurance needs to be SUAVE:

- **Simple:** policies, conditions, marketing, and procedures
- **Understood:** procedures, risk pooling, coverage
- **Accessible:** point of purchase, premium payments, and claims
- **Valuable:** match consumer needs, fair price, and coverage
- **Efficient:** for insurers, delivery channels, and policy holders

Understanding consumers and their needs before designing a microinsurance offering is critical, and consumer research and focus groups are vital. The focus should be on three things: *What risks do you face? How do you manage them? What are the gaps?* We need to

be more explicit about microinsurance customers and their needs and incorporate those needs into product designs to get them right. Understanding the needs of potential customers and getting customer input during the prototype phase of product development is crucial in developing a successful microinsurance product.



The focus in developing a microinsurance line of business involves building your customer base through trust. Using the SUAVE approach, policy wording should be kept simple (Michael even suggested “business card sized”) and the claims process made easy and quick, with no exclusions. Customers will not purchase anything they perceive to be too complex to understand or impossible to redeem. They may not even be aware of their eligibility under traditional exclusion clauses such as “pre-existing conditions”. Reducing or eliminating exclusions makes claims verification quick, inexpensive and less of an administrative burden for the insurer. The need to keep supporting documentation to bare sufficiency helps to increase efficiency for both the customer and the insurer. In certain countries, claims are made within one working day. Ease of making claims and rapid claim payments are critical in developing consumer trust.

Effective and efficient distribution is also key. It is unreasonable to expect a customer to buy insurance from a place they do not visit often, such as the branch of a nationwide retail bank. Partnerships can be key to achieving the efficiencies required. Successful microinsurance distribution partners have included pawn shops, grocery stores and telecom providers; these are businesses that the customer already has a relationship with and some level of trust. Partnering aggregators can also be considered to improve distribution.

Insurers in the region should take a closer look at the commercial opportunity that microinsurance presents, consider whether the time to develop their microinsurance products is already here, and evaluate the changes required to add them to their existing portfolio.

For more on how Milliman can help you with microinsurance, please click [here](#) or contact:

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