MILLIMAN RESEARCH REPORT

Asia Microinsurance Supply-side Study

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FARZANA ISMAIL, Principal & Consulting Actuary
NATASHA SU SIVARAJAH, Consulting Actuary
QUEENIE CHOW, Microinsurance Specialist, Asia-Pacific region

MicroInsurance
Centre at Milliman

Milliman

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CBIRC	China Banking and Insurance Regulatory Commission
GDP	Gross domestic product
GIC	General Insurance Corporation of India
GSMA	Global System for Mobile Communications Association
IRDAI	Insurance Regulatory and Development Authority India
MBA	Mutual Benefit Association
MFI	Microfinance institution
MIC@M	MicroInsurance Centre at Milliman
MNO	Mobile network operator
NGO	Non-governmental Organisation
RCC	Rural credit cooperative
TSP	Technical service provider

Section 1. Opening remarks

With growing interest in microinsurance in the region, we are pleased to present our first Microinsurance Supply-side Study of Asia in 2019 to gather the perspectives of the insurance industry regarding the importance of microinsurance, current practices and the enabling environment. We carried out this study primarily through a questionnaire survey, with responses from 112 regulated insurers providing microinsurance in five countries, namely Bangladesh, China, India, Indonesia and the Philippines.[1]

The study highlights insurer perspectives of the microinsurance market and challenges faced by microinsurance providers in these countries. In addition, the study offers insights into the operations of micro-insurers; including the range of microinsurance products offered, the distribution channels adopted and the use of technology by microinsurance providers in these countries.

There is no "one size fits all" solution. Each of the markets considered in this study is unique in its approach to developing and growing microinsurance. It is essential to understand the market dynamics and consumer needs, including the level of government support available, in driving a successful microinsurance market. A cost-effective business model (including distribution) is essential in developing a sustainable microinsurance market, and this may be further supported by the adoption of technology to drive efficiency and increase outreach. Whilst the increasing use of technology is likely to be inevitable, its use within microinsurance should be considered holistically, in terms of the cost-benefit analysis and its appropriateness in each market. For example, sales of microinsurance via mobile technology have been successful in some markets but lukewarm in others, indicating the need for wider considerations. Regulators also play an important role, developing conducive regulations by which the microinsurance industry to grow.

Country-level analyses based on the study will be released intermittently over the next few months.

The authors of the report would like to thank Michael McCord, who leads the MicroInsurance Centre at Milliman (MIC@M), for his valuable input in this study. We would also like to thank our Milliman colleagues Heerak Basu, Lalit Baveja, Katie Biese, Brian Colgan, Rudi Hartono, Guanjun Jiang, Jin Zhao, Nidhi Kushwah, Binita Rajbhandari and Mariah Mateo Sarpong for their efforts in leading data collection and analysis related to this study.

We would also like to acknowledge external consultants for their data collection efforts: Anatoly Jing Gusto (independent), Sultan-ul-Abedine Molla (Academy of Learning) and Kong Rong (Northwest A&F University). Special thanks as well to Farzanah Chowdhury (Green Delta Insurance), Junjay Perez (RIMANSI Organization for Asia & the Pacific) and Associate Professor Yi Yao (Peking University) for their valuable inputs.

The authors would like to extend a very special thank you to all the insurers who contributed their time and efforts to provide data for this study.

For further information, or if you would like to discuss the content of this report further, please contact the authors of this report or the MicroInsurance Centre at Milliman.

Best regards,

Farzana Ismail, Principal and Consulting Actuary

Natasha Su Sivarajah, Consulting Actuary

Queenie Chow, Microinsurance Specialist, Asia-Pacific region

[1] Note that a total of 148 regulated insurers were interviewed but 36 of them do not offer microinsurance. Insights into their reasons will be discussed below within this paper.

Section 2. Introduction and background

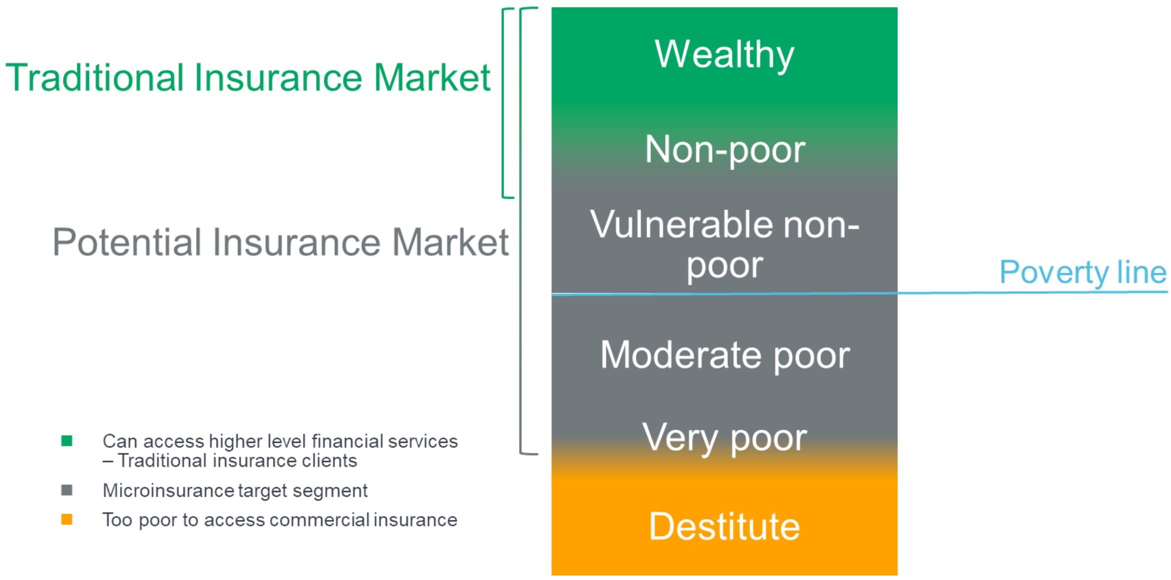
For the purpose of this study, microinsurance is broadly defined as "risk pooling products that are intentionally designed, in terms of costs, coverage, distribution and marketing, for low-income individuals, families and businesses." The respondents of this study include commercial insurers only, as well as Mutual Benefit Associations (MBAs) in the Philippines. The survey excludes social protection programmes, which are fully subsidised by governments.

For the purpose of this study, the following criteria are used to define "microinsurance":

1. Intentionally developed for low-income people.
2. Government is not the sole risk carrier.
3. The programme is based on insurance principles implemented by regulated insurers.
4. Goal of profitability or sustainability.
5. Modest premium levels and affordability.

Microinsurance generally targets the low-income segment of an overall population. The potential microinsurance market, as shown in Figure 1, includes the vulnerable non-poor, moderate poor and very poor, but would exclude the destitute, as this segment would be better served by government or donor programmes and infrastructure. Focusing on these economic levels should lead to the development of microinsurance products that cater specifically to this target market, including but not limited to life, health and property-related insurance products.

FIGURE 1: THE MICROINSURANCE MARKET

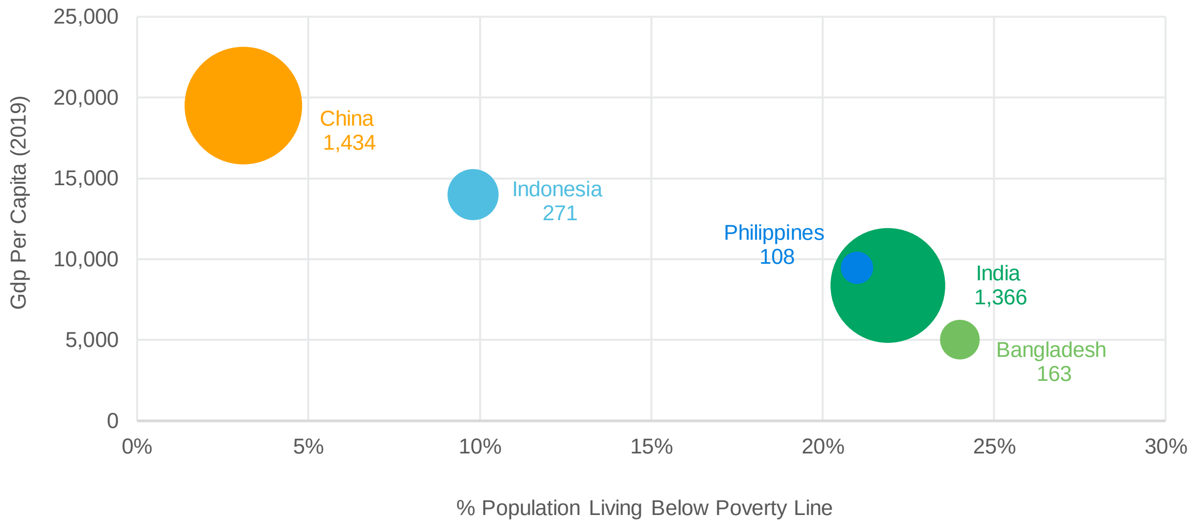


Microinsurance, therefore, forms part of the insurance continuum and is not delinked from the insurance industry. Just as products are developed, priced and serviced differently for different markets, microinsurance is simply insurance for low-income populations. In the five countries studied, a sizeable population lives below the poverty line, thus driving the demand for microinsurance in these areas. Moreover, countries such as the Philippines and Indonesia are susceptible to frequent natural disasters, which tend to impact low-income people particularly severely. Thus, the needs for microinsurance are great. However, in microinsurance, “need” is not the same as “demand.” In order to understand demand a focused demand study is necessary in addition to understanding the supply of microinsurance, which is the focus of this paper.

The proportion of the surveyed countries’ populations living below the poverty line is generally high, as can be seen in Figure 2 below. Coupled with low but growing gross domestic product (GDP) per capita, this presents significant opportunities for growth of microinsurance business in these countries which are nevertheless not without their challenges, discussed in detail in this report.

FIGURE 2: INSURANCE PENETRATION, GDP PER CAPITA, POPULATION

Size of bubbles and data labels represent 2019 population in millions

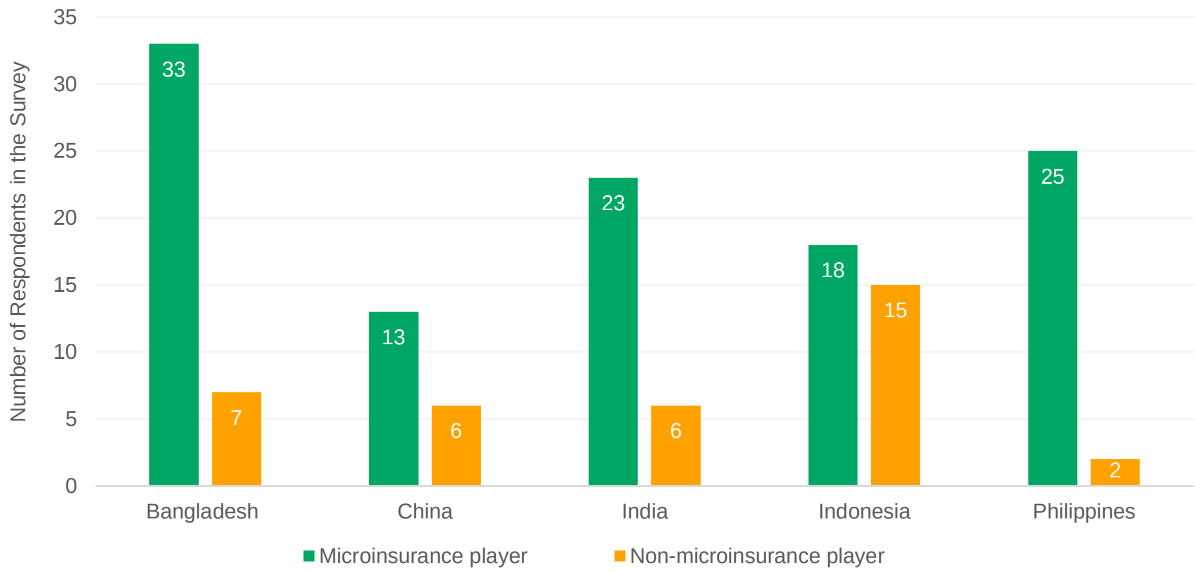


With high proportion of populations **living below the poverty line** and growing GDP per capita, this presents **SIGNIFICANT** growth opportunities for microinsurance

Sources for percentages of populations living below poverty line (latest figure available): Bangladesh – 2016, ADB; China – 2017, ADB; India – 2016, UNDP; Indonesia – 2018, ADB, Philippines – 2018, psa.gov.my.

We received 148 responses to our survey. Figure 3 shows the number of survey participants in each country by provider type: microinsurance players versus non-microinsurance players.

FIGURE 3: TYPES OF PARTICIPANTS RESPONDING TO THE SURVEY



* Average across the 5 countries studied.

Of the 27 insurers surveyed from the Philippines, 17 represented MBAs, whose key principles are driven by member ownership. Their perspective in the survey may differ from commercial insurers as MBAs are not-for-profit. However, MBA respondents made up of over 60%[2] of responses received, which is similar to the market share MBAs hold in the microinsurance market in the Philippines. Out of the 148 survey respondents, 112 provide microinsurance, as shown in Figure 3.

In this survey, we have summarised our analysis of the microinsurance market in the following key categories: operating environment, products, distributions and the use of technology in microinsurance, which are discussed in the below sections.

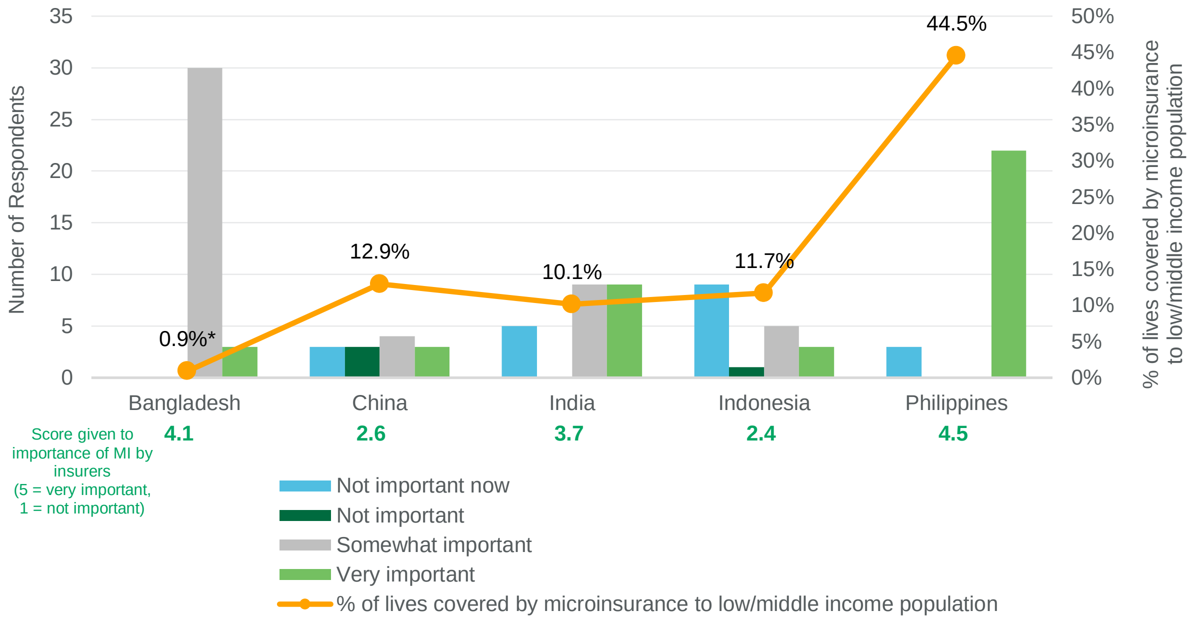
[2] Financial Inclusion in the Philippines: Dashboard (Q1 2019). Retrieved 29 March 2020 from http://www.bsp.gov.ph/downloads/Publications/2019/FIDashboard_1Q2019.pdf.

Section 3. Operating environment

HOW IMPORTANT IS MICROINSURANCE TO INSURERS?

When asked about the importance of including microinsurance as part of their product mix, insurers in each of the five markets surveyed had varied responses, as shown in Figure 4.

FIGURE 4: IMPORTANCE PLACED BY SURVEY PARTICIPANTS ON SELLING MICROINSURANCE



90% of microinsurance provider-respondents in the Philippines rated offering microinsurance as **"VERY IMPORTANT"**

Sources for microinsurance coverage: Bangladesh – 2019, IDRA; China – 2013, MiN Landscape Study; India – 2013, MiN Landscape Study; Indonesia – 2019, OJK, Philippines – 2019, IC.

The players in the Philippines led the survey with strong views on the importance of microinsurance, where nearly 90% of microinsurance provider-respondents rated offering microinsurance as "very important." MBA respondents, whose key mandate is placed on selling microinsurance, made up over 60%[3] of responses received, which is similar to the market share which MBAs hold in the microinsurance market in the Philippines. Unsurprisingly, this finding coincides with the tremendous outreach observed in the microinsurance industry in the Philippines, where a coverage of 44.5%[4] of the low-income and middle-income population was reported—the highest recorded anywhere in the world. On the contrary, Indonesian insurers placed the least importance in microinsurance development, yielding a lower coverage level at 11.7%[5] of the low-income and middle-income population.

[3] Ibid.

[4] 44.5% is calculated as 40.0 million lives covered / 89.9 million people classified as low-income or middle-income (as at Q1 2019). Sources of the numbers are from the Philippines Dashboard, op cit., and the Pew Research Center, at https://www.pewresearch.org/global/interactives/global-population-by-income/.

[5] 11.7% is calculated as 25.9 million lives covered / 221.4 million classified as low-income or middle-income (as at Q3 2019). Sources of the numbers are from: Kontari, at https://keuangan.kontan.co.id/news/peminat-asuransi-mikro-diprediksi-akan-terus-bergairah?page=all, and the Pew Research Center, at https://www.pewresearch.org/global/interactives/global-population-by-income/.

Although Bangladesh respondents also substantially considered microinsurance to be somewhat important, the coverage of microinsurance amongst the low-income and middle-income population remains extremely low, at 0.9%.[6] In the recent 15th International Conference on Inclusive Insurance in Dhaka in 2019, the Prime Minister of Bangladesh, Sheikh Hasina, confirmed the significance of microinsurance to the government, noting that "if geared to tackle the situations arising out of climatic hazards, [microinsurance] will go a long way to address the needs of the millions living mainly at the lower rung of the society."[7] In addition, Senior Secretary from the Ministry of Finance Md. Ashadul Islam also commented that "the concept of microinsurance is yet to be familiar with the people in Bangladesh."[8] As an indication of the Bangladesh government objectives in microinsurance the Senior Secretary publicly committed to a goal of 25% of the total population of Bangladesh to have microinsurance cover by 2025.

In India, microinsurance is important to insurers due to the quota system imposed by the regulators, IRDAI, which requires all insurers to provide cover to the "social" and "rural" sector. Missing the quota could result in an insurer being de-licensed in India. Despite the quota system, India yielded a relatively low coverage level at 10.1%[9] of the low-income and middle-income population.

In line with intuition, in well-developed microinsurance markets, insurers tend to place greater levels of importance on selling microinsurance. In instances where limited importance is placed in microinsurance, little growth is observed. However, the importance of microinsurance valued by insurers alone is not sufficient to drive market development. As shown in Figure 5, there are other key components which are necessary to support growth, such as:

- A facilitative regulatory environment, with support from the regulators and insurance association. This ranks highest by all the survey participants.
- Availability of cost-effective distribution channels to reach the low-income segment.
- Market intelligence including data and demand information to support product development.

Most markets consider the availability of actuarial data to support the technical design and reinsurance support to have a low impact driving market growth. Reinsurance support is only likely to be important for high-severity types of risk such as coverage for natural disasters.

PILLARS OF SUCCESS IN MICROINSURANCE DEVELOPMENT

Whilst each market is unique in its approach to developing and growing microinsurance, four key pillars of success have been identified for stimulating growth:

1. Strong insurance providers.
2. Facilitative regulations.
3. Market demand.
4. Available distribution channel.

[6] 0.9%* is calculated as 0.9 million policyholders covered / 100.0 million classified as low-income or middle-income (as at Q1 2020). Sources of the numbers are from IDRA (where number of policyholders was available while number of lives was not captured in the current database) and an estimate of 10% of life insurance coverage was assumed to be microinsurance (an estimate made between 10 – 30% was made based on regulatory expertise in Bangladesh and 10% was applied to take a conservative approach and not overstate figures). See https://www.pewresearch.org/global/interactives/global-population-by-income/.

[7] Coping with Climate Risk, 15th International Conference on Inclusive insurance, sourced from Bangladesh Insurance Association (BIA).

[8] Same as reference 5 above.

[9] MiN Landscape Study; India – 2013.

In Figure 5, we made assessments of these pillars of microinsurance development, ranking them as high, medium and low levels of support from an insurer's perspective.

FIGURE 5: ASSESSMENT ON THE FOUR PILLARS OF SUCCESS IN MICROINSURANCE DEVELOPMENT

LEVEL OF SUPPORT IN THE PILLARS OF SUCCESS IN MICROINSURANCE DEVELOPMENT	STRONG INSURANCE PROVIDERS	FACILITATIVE REGULATIONS	MARKET DEMAND	AVAILABLE DISTRIBUTION CHANNEL
BANGLADESH	3.1	3.4	3.0	3.2
CHINA	3.0	3.4	2.6	2.7
INDIA	2.8	3.4	2.7	2.8
INDONESIA	2.7	3.0	2.2	2.6
PHILIPPINES	3.4	3.8	3.2	3.3

LEGEND:

2 LOW SUPPORT LEVEL

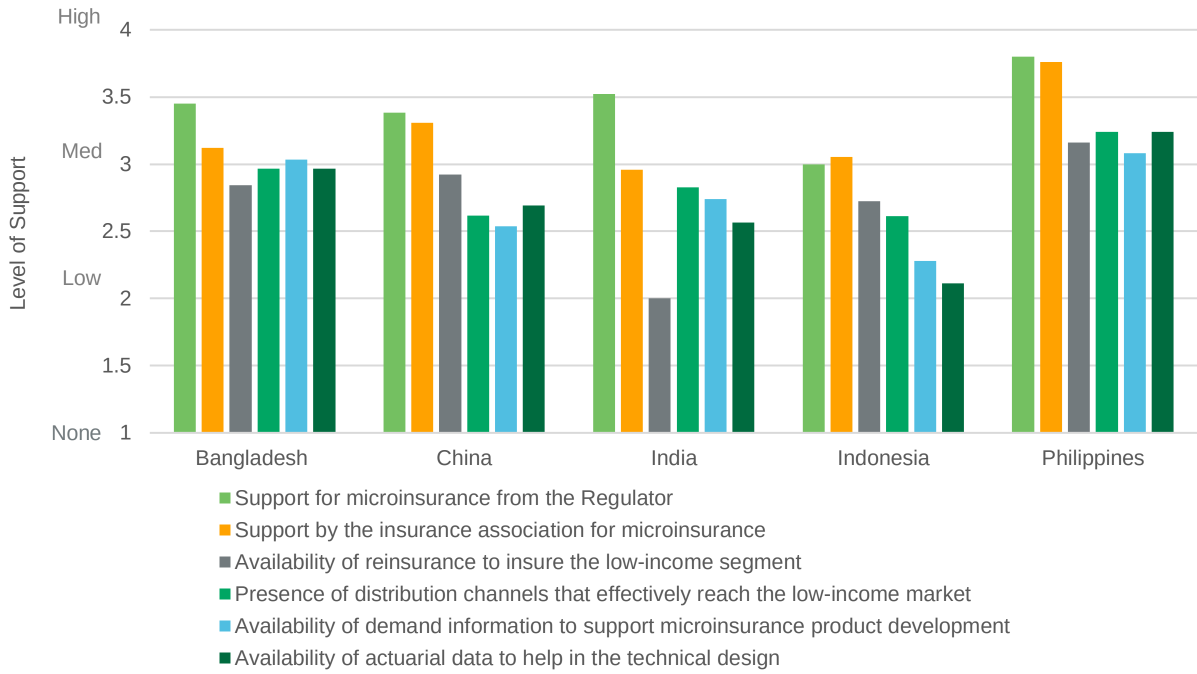
3 MED SUPPORT LEVEL

4 HIGH SUPPORT LEVEL

The Philippines led the assessment with the highest level of perceived support across all pillars of success, a reflection of the strong operating environment in this country for microinsurance providers. In particular, insurers believe that they are highly supported through facilitative regulations in microinsurance. On the contrary, Indonesian insurers observed the lowest level of support across all areas of assessment, with significant limitation in market demand in microinsurance products. China, India and Bangladesh have very similar experience, where medium levels of facilitative regulations are observed and with concerns in demand of microinsurance products in the market and availability of cost-efficient distribution channels. In order to encourage growth in the microinsurance market across all of these markets, it is highly recommended for insurers to conduct demand studies to better understand consumer needs in the microinsurance segment as this area is identified as the weakest pillar. Through understanding customer behavior in this segment, innovative channels can also be uncovered, particularly for China, India and Indonesia where this is also perceived to be a challenge.

In Figure 6 we look further into the detailed factors driving the external operating environment.

FIGURE 6: INSURERS' PERCEPTIONS OF LEVEL OF SUPPORT FROM FACTORS DRIVING THE EXTERNAL OPERATING ENVIRONMENT



In Bangladesh, the supporting environment for microinsurance is relatively consistent across the different aspects being ranked at a medium level of support—from the availability of reinsurance to support of insurance associations. In the survey with insurers that do not offer microinsurance, the top reasons which deter them relate to microinsurance clients not being their target market. Some also felt that the regulatory environment in their market is unfavorable. This is consistent with the results of The Economist Global Microscope report (2019), where Bangladesh's inclusive insurance regulatory framework was identified as the key area of improvement for the country.[10]

All five countries note the importance of "Support for microinsurance from the regulator" as an indicator of the key role played by the regulator in providing a facilitative environment for microinsurance.

China also scored an overall medium level of support, with support from the China Banking and Insurance Regulatory Commission (CBIRC) perceived to be medium to high. Given that microinsurance is heavily state-driven and used as a tool for poverty alleviation, these responses are in line with expectation. The top reason for not offering microinsurance was also "not their target market." Some insurers also commented that there is insufficient market information available.

In India, the support for microinsurance from the regulator was stated by most respondents to be medium to high. This could be attributed to the minimum quotas placed by the Indian state government on the number of lives covered and the total weighted premium covered by insurers in India on microinsurance products. The availability of reinsurance to insure the low-income segment was rated as low likely because of the General Insurance Corporation (GIC). Furthermore, the lack of distribution channels was identified as the key challenge which stops insurers from developing products for this segment.

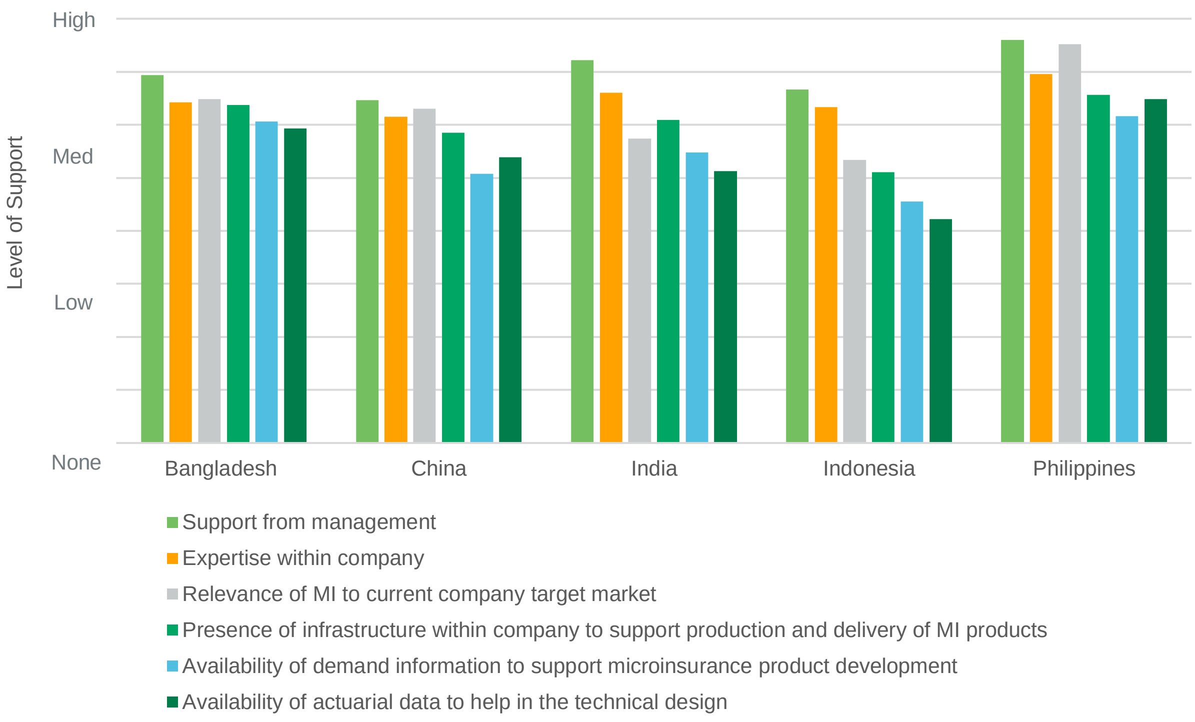
In this survey, microinsurance providers in Indonesia placed the lowest level of importance in selling microinsurance. This is in line with the lower perceived level of support across all drivers to a sound operating environment. In particular, the key factors that may spur companies in selling microinsurance are the readiness of actuarial data and the availability of demand information in supporting product development. As in India, insurers that do not provide microinsurance also strongly stated that the lack of distribution channels is the key challenge faced in Indonesia.

[10] The Economist Intelligence Unit. Global Microscope 2019: The Enabling Environment for Financial Inclusion. Retrieved 29 March 2020 from https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2019/10/EIU_Microscope_2019.pdf.

PERCEPTION OF OPERATING ENVIRONMENT: A LOOK INTO THE FACTORS IMPACTING COMPANIES' OPERATIONS

A very similar pattern is observed in the internal operating environment when compared to the external market factors across the countries investigated (Figure 7). The Philippines and Bangladesh take the lead in the highest level of internal support observed across the five countries. On the contrary, Indonesia and India have relatively lower levels of support overall, with higher degrees of variation between the different drivers within a company.

FIGURE 7: INSURERS' PERCEPTIONS OF LEVEL OF SUPPORT PROVIDED BY INTERNAL OPERATING ENVIRONMENT



PHILIPPINES AND BANGLADESH

take the lead in the **highest level of internal support** observed across the five countries

It is important to note that, across all countries investigated, the availability of demand information and actuarial data remains low. The presence of infrastructure within companies to support the delivery of microinsurance (MI) products is also limited when compared to other drivers.

DRIVERS OF GROWTH AND CHALLENGES FACED

Figure 8 shows the main drivers of microinsurance growth, and the key challenges faced by each of the countries considered in this study.

FIGURE 8: KEY DRIVERS OF GROWTH AND CHALLENGES IN MICROINSURANCE

	DRIVERS OF GROWTH	CHALLENGES FACED
PHILIPPINES	Introduction of MBAs as a new tier of microinsurance providers in 2006, which eventually became the main drivers of microinsurance development. This served to formalise many microfinance institutions (MFIs) and non-governmental organisations (NGOs) which had previously been operating informally. The overall success of the Philippines microinsurance sector has been underpinned by the Department of Finance's overarching policy for microfinance and financial inclusion, enabling the coordination and collaboration between various government agencies. The Insurance Commission, as well as local industry associations, was also involved heavily in capacity building and financial literacy advocacy work. Cost-efficient distribution networks such as the pawnshop network also contributed to the development of microinsurance. Emergence of CARD Pioneer, one of the most successful microinsurers, also demonstrated a clear sustainable business case with microinsurance.	The Philippines is located in one of the world's most disaster-prone regions. The high catastrophic risks associated with this country have resulted in challenges to the willingness to underwrite or obtain appropriate reinsurance arrangements. The Philippines remains a cash-based society, with low adoption of mobile money. This creates challenges and inefficiency in premium collection and claims payment for insurers.
BANGLADESH	High mobile penetration and potential of mobile network operators as distributors of microinsurance. Need for health microinsurance products due to lack of access to quality healthcare by rural population.	High operating expenses and capital required. Reliance on own agents for microinsurance distribution; lack of partnership with MFIs and NGOs which tend to provide their own microinsurance products. Lack of microinsurance regulations and regulatory support. Most microinsurance is currently being provided by NGOs and MFIs, which are not regulated by the Insurance Development and Regulatory Authority (IDRA) as insurance companies (and thus are not included in this study).
CHINA	Promotion of insurance in order to reduce and overcome poverty. State provides subsidy through the public and semipublic models and may also provide subsidies through the commercial model. Issuance of the Outline of Poverty Reduction Development in China's Rural Areas, aiming to enhance the central fiscal policy in subsidies in agricultural microinsurance. Use of advanced technology for the distribution and management of microinsurance.	Heavy reliance on state support to sell policies. Lack of innovation in policies as most products are state-funded.

FIGURE 8: KEY DRIVERS OF GROWTH AND CHALLENGES IN MICROINSURANCE (CONTINUED)

	DRIVERS OF GROWTH	CHALLENGES FACED
INDIA	Minimum yearly quotas imposed on insurers to achieve on microinsurance products, on gross weighted premium and on number of lives covered under microinsurance products. Support from regulator, the Insurance Regulatory and Development Authority of India (IRDAI), an autonomous regulatory body. Initiatives include liberalisation of the market in 2000.	Companies selling microinsurance purely to meet the minimum quota requirement, thus reducing innovation. Access to reinsurance. Availability of investment capital to further develop the microinsurance industry.
INDONESIA	Initiatives taken by the regulator to grow microinsurance to improve public awareness. Launch of the “Grand Design” microinsurance blueprint in 2013, followed up by initiatives to build the microinsurance industry, understand the market and improve public awareness of microinsurance.	Underdeveloped microinsurance industry, although this is seen to be growing. High development costs and inadequate capital base. Lack of cost-effective distribution channels.

Section 4. Products

Credit-linked and life products are prevalent across all the markets surveyed.[11] Credit life and life products continue to be the key products offered across all the countries. This is followed by disability products and health coverage. It should be noted that, in this research, these proportions are calculated by the number of products without weighting them against the financial size of the product portfolio. Figure 9 shows a breakdown of products offered by our survey respondents in each of the countries.

FIGURE 9: EXISTING MICROINSURANCE PRODUCT OFFERING

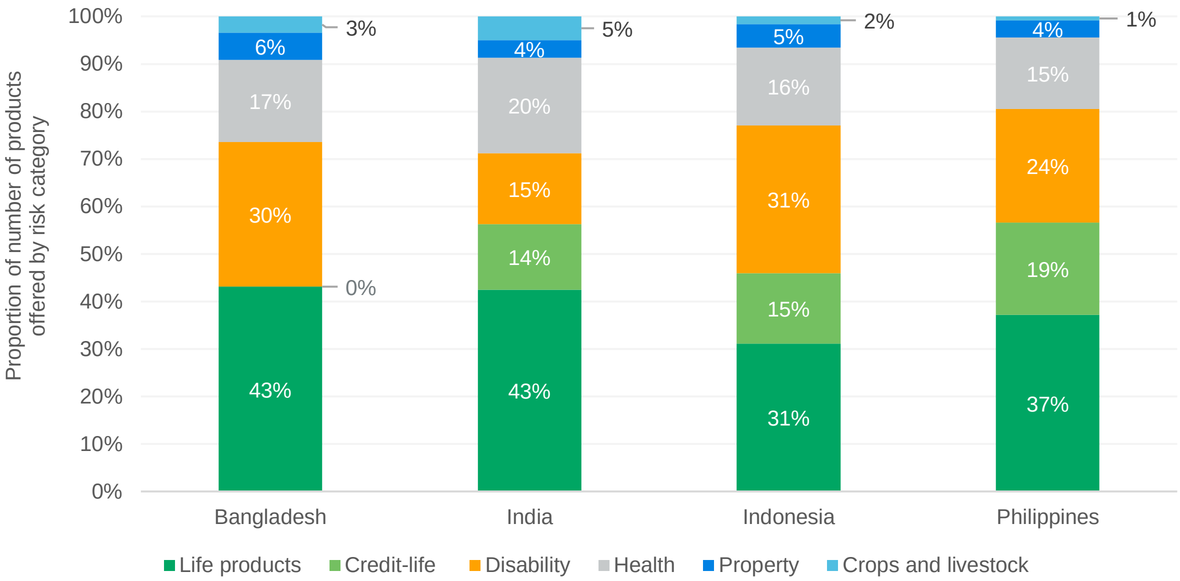


Figure 9 shows the prevalence of credit life and life products, which is expected considering the natural partnership with established MFIs in these countries. In Bangladesh, credit life insurance is managed directly by the MFIs with no regulated insurer involved, and thus they were not included in the study. The high uptake in life insurance is likely because it is relatively easy to develop as a product and simple for clients to understand, thus easy to reach scale and profitability at early stages of the product cycle. Whilst life coverage is important, there is a great need to evolve beyond basic life products. Credit life products are often considered as an entry product into the market. For the microinsurance market to evolve, there is a need to move towards complex products such as health and agricultural insurance, which are both considered highly relevant to the low-income population. As the market matures, a more diverse range of product offerings is expected to appear in servicing broader customer needs and diversifying insurers' risk portfolios. In the case of the Philippines, where the outreach of microinsurance is highest in the world, the range of products offered in the market remains analogous. A key reason why life products have largely dominated the market is because of the tax-exempt status for MBAs. On the other hand, general taxation for the non-life sector is among the highest in the southeast Asian region, which is hampering market development in non-life products.[12,13] Such phenomena also highlight the need for insurers to promote the need for product evolution and risk diversification with regulators and governing bodies, particularly when tax rules are impeding market development.

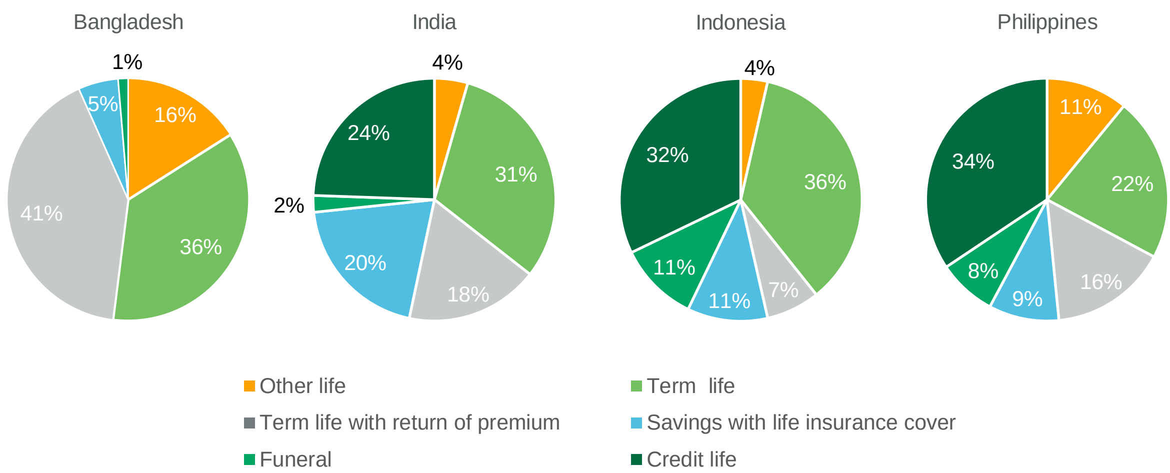
[11] Limited data on products was collected from our respondents in China, which has thus been excluded from this portion of the report.

[12] In the Philippines, MBAs and cooperative microinsurers are only allowed to write life products, with the exception of CLIMBS, a cooperative microinsurer and fully regulated by the IC as an insurance company, which also writes non-life products. This has forced MBAs to go to commercial insurers for non-life covers. This also means that MBAs play a dual role as insurers for life products, and distributors for non-life covers. For particularly risky life products, they may also go to the commercial sector.

[13] University of Cambridge (2019): Mutual Microinsurance and the Sustainable Development Goals: An Impact Assessment Following Typhoon Haiyan. Retrieved 29 March 2020 from http://www.cisl.cam.ac.uk/resources/publication-pdfs/mutual-microinsurance-sustainable-development.pdf.

As shown in the distribution of product type within the life risk category in Figure 10, term life and credit life dominate the market. When embedded with microfinance products (i.e., credit life), the product package is made more attractive to clients and easier to value. Term life also holds a strong position in the market likely because of its simplicity, making it easy to price and manage. Term life products offered with a savings component are also commonly observed across the markets investigated. When bundled with other financial instruments, the perceived value of the insurance package increases, making sales more straightforward. There is also term life with return of premium (i.e., endowment) seen in the market. Whilst this is a more complicated product to administer, the return of premium offers a disciplined manner for saving money for future financial needs and certainty of payment for policyholders. It is interesting to note that funeral cover is not popular amongst products offered in Asia. This may be attributed to the fact that death and funerals remain taboo subjects amongst low-income populations in Asian countries.

FIGURE 10: EXISTING LIFE MICROINSURANCE PRODUCT OFFERING



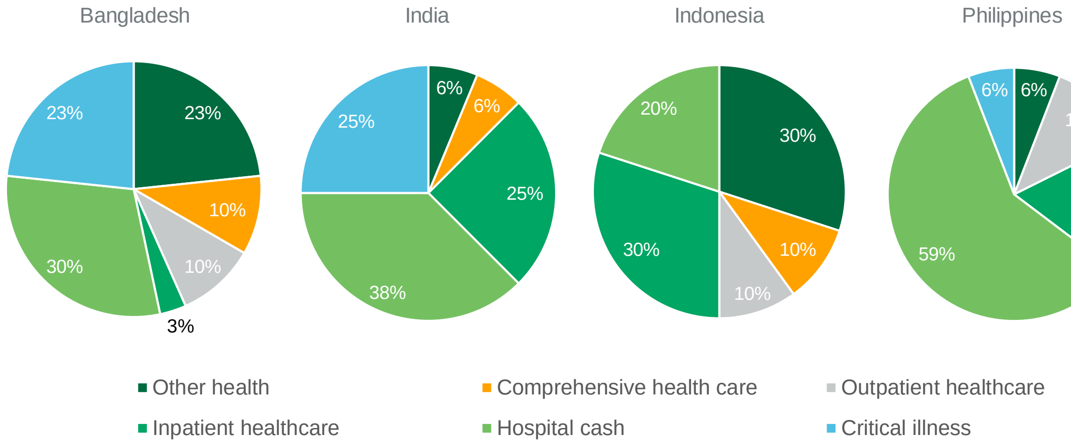
Hospital cash dominates as the top health microinsurance product offered across the countries investigated, with the exception of Indonesia (see below in Figure 11). This is likely due to the ease of offering a basic fixed daily coverage as opposed to all the administrative costs involved in managing inpatient, outpatient and other health covers, which require complex and potentially expensive loss adjustment. These factors also have significant implications for the scale, profitability and sustainability of microinsurance products.

This is followed by critical illness coverage in Bangladesh and India, potentially due to the heavy financial burden which such events can cause on a low-income household. Inpatient health coverage is also common in India, Indonesia and the Philippines. Such cover will assist patients where national social protection schemes do not provide wide scopes of complementary in-hospital healthcare.

Whilst we did not distinguish micro-takaful products from coverage offered by conventional products in our research, other recent studies indicate that micro-takaful products could be an area of growth in Indonesia.[14] Home to the largest Muslim population in the world, it is unsurprising that in Indonesia there is corresponding demand for a Shariah-compliant solution such as micro-takaful. Recent research indicates that the top risk events identified to cause vulnerability of the poor are illness and education expenses.

[14] 2014 Microtakaful Conference Indonesia (24 April 2014): Market Assessment on Micro-takaful in Indonesia. Retrieved 29 March 2020 from http://www.inclusiveinsuranceasia.com/docs/market-study-web-version.pdf.

FIGURE 11: EXISTING HEALTH MICROINSURANCE PRODUCT OFFERING



Most markets offer products on an unbundled basis to make it more affordable to consumers, with the exception of the Philippines. Across the five countries, more than eight out of 10 of the microinsurance products offered by insurers are not bundled. In the Philippines, MBAs typically bundle personal accident, disability and hospital cash products with other products. In addition to these products, non-MBAs also bundle term life, property, critical illness and inpatient healthcare. As bundled products are usually more expensive as a package in comparison to stand-alone insurance products, this is likely to be a key reason why microinsurance products remain unbundled. However, it is important to note that, whilst the cost of providing the package has increased, the perceived value of the bundled package has also enlarged, i.e., a client may be willing to pay a higher price for the larger bundle. In India, providers also offer community-based bundled insurance products, e.g., VimoSEWA, an integrated insurance programme which covers risks their members face in their life cycle. As the industry continues to emphasise the importance of the holistic risk management approach for the low-income population, there is clear room for insurers to offer bundled insurance packages across all the markets studied.

State-led poverty alleviation products are prominent and online mutual aid platform is on the rise in China. Due to limitations in data collection, microinsurance products split by risk category are not available for China. However, based on desk research and discussions with practitioners in China, products provided by microinsurers typically include agricultural insurance, bundled term life and personal accident or credit life, personal accident medical expense, property and term life insurance. These are typically state-led poverty alleviation products.

Online mutual aid platforms in China

Xing Hu Bao (mutual protection), introduced by AliPay, attracted more than 100 million participants in making health protection more inclusive and accessible to those living in rural areas.[15]

Credit-associated products are an important model of microinsurance in China. The "Credit and insurance 1+1"[15] model is a case in point of how microinsurance life and accidental products are sold through microcredit institutions. These products are typically insurance coverages associated with loans that are sold through agricultural banks and rural credit cooperatives (RCCs). The inclusion of insurance products with loans is believed to increase the willingness for microcredit institutions to finance higher-risk profiled clients, such as low-income people in rural areas.

[15] Yi Yao. Microinsurance: Progress in theory and lessons from practice.

A more recent type of mass market product has also emerged in China: online mutual aid platforms, which are programmes where participants pool their wealth through a series of small payments. The collective pool makes payments to members who file claims. An example of such programmes is Xing Hu Bao (mutual protection), introduced by AliPay, which has attracted over 100 million participants since it was launched in 2018. Whilst it is not specifically a microinsurance product, it has helped make health protection in China more inclusive and accessible for the lower-income people and those living in rural areas.[16] The rise of the mutual aid platform in China—and similarly peer-to-peer (P2P) platforms in developed countries—implies that inclusion in insurance is demanded by customers. This highlights the need for insurance providers to be at the forefront of creating accessibility in order to capture the new market segment.

Microinsurance products specifically developed to address climate risks are still in their infancy. Accessibility to insurance solutions which cover extreme weather events due to climate change is limited for low-income populations, with only one in 10 insurers surveyed saying that they offer such coverage. Our research also indicates that countries which are more prone to climate disasters do not necessarily offer solutions which address these risks. Bangladesh is an example, where only one of the 40 insurers surveyed provides insurance coverage targeting climate risks. Whilst there are a few microinsurance products in the Philippines market which cover climate risks specifically, the existing life risk coverage has nevertheless proven to be invaluable during climate disasters like Typhoon Haiyan. From recent research conducted by the University of Cambridge on typhoon victims with and without insurance, those who were insured used their microinsurance funds to restart livelihoods and repair homes. Their capacity to recover businesses was also better,[17] highlighting the importance of microinsurance for these segments. With limited property coverage available in the market, insurers should also look to offer protection associated with assets, housing and business to the microinsurance segment, particularly addressing climate-related risks.

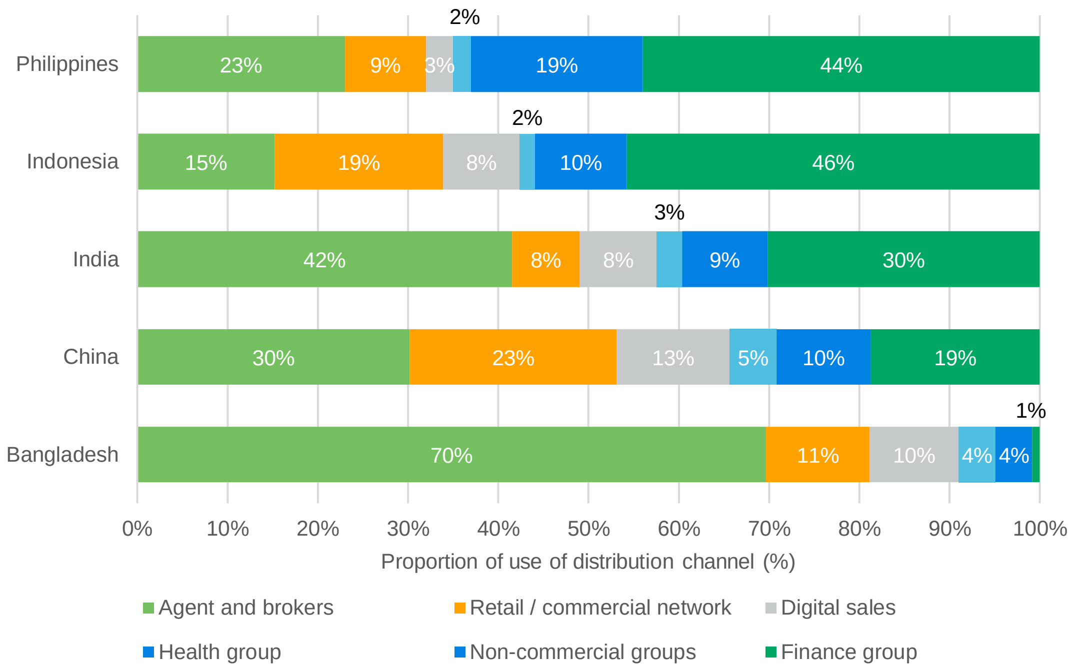
[16] Business Wire (27 November 2019). Alipay's Xiang Hu Bao online mutual aid platform attracts 100 million participants in one year. Retrieved 29 March 2020 from https://www.businesswire.com/news/home/20191126005952/en/Alipay%E2%80%99s-Xiang-Hu-Bao-Online-Mutual-Aid.

[17] Swiderek and Wipf (2015). Aiding the disaster recovery process.

Section 5. Distribution

Based on our survey responses shown in Figure 12, finance institutions are among the most favorable distribution partners in selling microinsurance, particularly for MFI partners in India, Indonesia and the Philippines. We note that, in Bangladesh, credit life insurance is managed directly by the MFIs with no regulated insurer involved, and thus were not captured in this analysis. This does not imply that microinsurance is not distributed through microfinance institutions in Bangladesh. Agent and brokers are also a popular distribution network for microinsurance, followed by retail and commercial networks.

FIGURE 12: DISTRIBUTION CHANNELS FOR MICROINSURANCE PRODUCTS

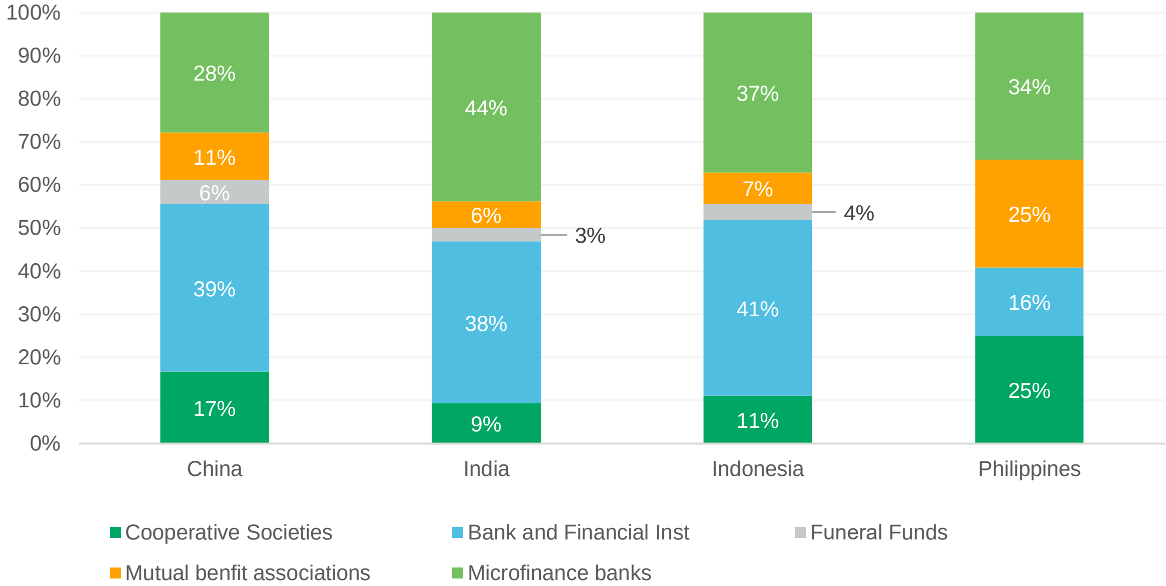


Finance institutions – particularly MFIs, are among the **MOST FAVORABLE ("popular") DISTRIBUTION PARTNERS** in selling microinsurance

Microinsurers typically leverage on the MFI partner's reach to the target market, as well as their operational capabilities to service microinsurance products that are bundled together with their own microcredit products. The percentage of respondents who sell microinsurance products through microfinance institutions for each country is provided in Figure 13 , with a high majority of insurers surveyed making use of MFI across Indonesia, India and the Philippines. In addition to microfinance institutions, a large majority of respondents also sell microinsurance through banks and financial institutions with the exception of the Philippines. This is likely because there is a low proportion of 34%[18] of people who have an account with a financial institution Whilst banking proportion is also low in Indonesia, the popularity of banks and financial institutions is unique due to their extensive reach to the rural population in the country.

[18] Source: https://ourworldindata.org/.

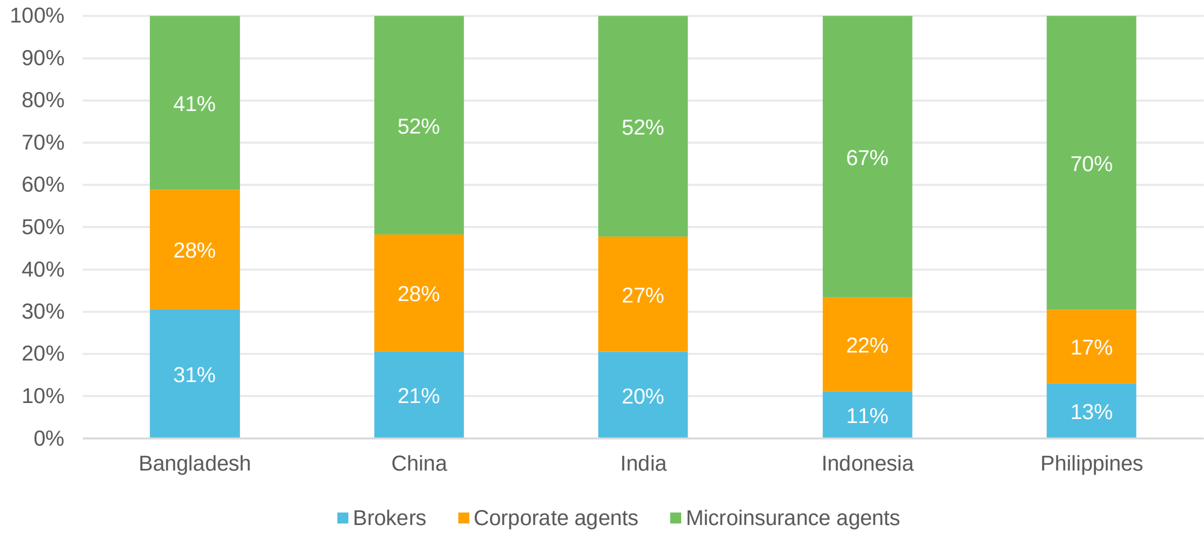
FIGURE 13: PROPORTION OF USE OF FINANCIAL INSTITUTIONS AS DISTRIBUTION CHANNEL



% OF INSURERS WHICH USES	CHINA	INDIA	INDONESIA	PHILIPPINES	BANGLADESH
MICROFINANCE BANKS	56%	100%	91%	100%	0%
BANK AND FINANCIAL INST	78%	86%	100%	47%	3%

The use of agents as distribution network is also prevalent across all countries. In Bangladesh, microinsurance providers prefer to use their own microinsurance agents for sales, premium collection and claims disbursement. These agents are largely concentrated in urban areas. Agents are also used by our respondents in China, particularly those who leverage the distribution infrastructure of their main conventional products as cooperate agents. Similarly, with Bangladesh, the success in China is limited by reach and scale. Agent-driven models tend to be more expensive compared to other distribution channels typically adopted in the microinsurance sector. Nevertheless, selling microinsurance through their own agents has the benefit of better persistency with the face-to-face contact, thus cultivating trust. It is interesting to note that corporate agents are also used to sell microinsurance and it is questionable whether that drives volume. In the author's experience, sales of microinsurance products often becomes a second-tier product for corporate agents because the absolute commission level would typically be much lower than conventional products. Being a relatively new market, microinsurance products generally have longer sales cycles, making them less attractive to agents with a choice of selling different products. The management of agent and striking the magical balance between sales and incentives remain an art more than a science in the microinsurance space. Moreover, in our interviews with certain successful microinsurers, their lessons learnt in the agency model is that nonfinancial incentives for microinsurance agents can potentially be more effective than financial incentives, particularly at the early stages of building an agency business model. Figure 14 provides a summary of the percentage of respondents who sell microinsurance products through their own agents for each country.

FIGURE 14: PROPORTION OF USE OF AGENTS AND BROKERS AS DISTRIBUTION CHANNEL



BANKED PENETRATION in Bangladesh is LOW at 31%, while **MOBILE PENETRATION** is much HIGHER at 82%

Within the retail and commercial network used to distribute microinsurance, there is a mixture of different channels which can be observed. The most notable distribution channel is the distribution via mobile networks in Bangladesh, where almost half of the respondents sell microinsurance through mobile networks or online. Whilst the banked penetration in Bangladesh is low at 31%, the mobile penetration is much higher at 82% as at 2018.[19] Two notable technical service providers (TSPs) offering microinsurance through mobile networks are BIMA and previously MicroEnsure, in partnership with mobile networks Robi Axiata and Grameenphone, respectively. These partnerships tend to adopt the "freemium" models, with premiums paid for by the mobile network operator (MNO) to promote loyalty. Whilst such MNO models continue to exist, their sustainability is questionable given low renewal rates.[20] Furthermore, it is debatable whether offering "free" insurance is necessary in driving sales of paid products. The take-up of the MNO channel in distribution is also highly driven by the market competition in this space. The MNO distribution channel did not reached scale in the Philippines as its mobile network market is driven by a duopoly, which limits incentives for the two players to innovate in the area of insurance.

FIGURE 15: PROPORTION OF COMPANIES THAT USE AGENTS AND BROKERS TO SELL MICROINSURANCE POLICIES

% OF INSURERS WHICH USE	BANGLADESH	CHINA	INDIA	INDONESIA	PHILIPPINES
MICROINSURANCE AGENTS	53%	83%	82%	27%	53%
BROKERS	79%	67%	64%	9%	20%
CORPORATE AGENTS	73%	89%	86%	18%	27%

[19] MicroSave (2018). Country Focus Note: Bangladesh. Retrieved 30 March 2020 from https://www.microsave.net/wp-content/uploads/2018/11/Bangladesh_Country_Focus_Note.pdf.

[20] Discussion with MicroEnsure CEO and practitioners working within this distribution model.

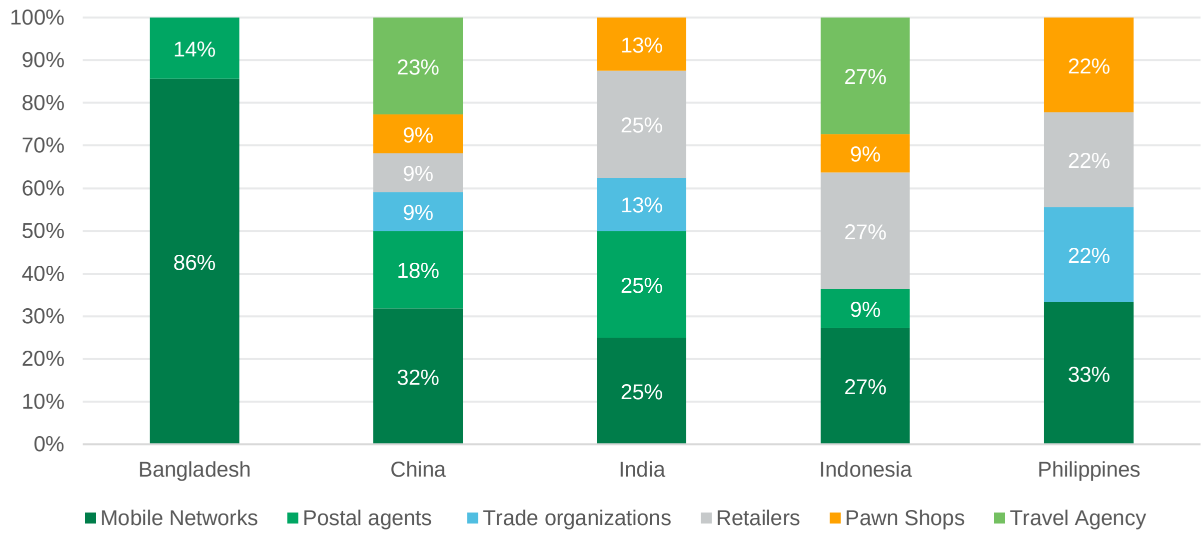
In the Philippines, significant amounts of microinsurance products are sold through the vast pawnshop network. As of 2018, there were over 18,500 pawnshop branches in the Philippines.[21] Cebuana Lhuillier (Cebuana) is the biggest pawnshop network in the Philippines, with over 1,800 branches nationwide, and sells over 1 million microinsurance policies per month. As of 2017, 30% of Filipinos covered by microinsurance were covered through Cebuana.[22] Cebuana partners with microinsurance providers (e.g., CARD Pioneer, AXA and others), which then underwrite the microinsurance products written under Cebuana's own brand. For Cebuana, its unique selling point among its competitors is its dominant position as a claims hub. In the Philippines, pawnshops provide a large range of services, including providing loans, money transfers, remittances and payment of bills. As such, for many Filipinos, pawnshops serve as the most convenient local hub to address their financial needs, including obtaining microinsurance cover. However, the need for diversification of distribution channels for insurers should be noted in order to not become over-reliant on one distribution channel. In the case of Cebuana, high commission fees are observed with fierce competition between insurers in obtaining business from this channel. Such competition may even potentially create a price war.

As of 2018, there were

OVER 18,500 PAWNSHOP BRANCHES

in the Philippines

FIGURE 16: PROPORTION OF USE OF RETAIL AND COMMERCIAL NETWORK AS DISTRIBUTION CHANNEL



In China, credit life microinsurance is also sold through the postal system. This was piloted by China Post Life and is still at very early stages.[23] Credit life microinsurance is also sold via "rural microcredit institutions and rural credit cooperatives" (RCCs). They are existing financial services providers which have extensive distribution networks and administrative capability to distribute these products. Other personal lines of microinsurance are also sold through village committees. These lines are typically group policies with no individual underwriting, sold through a consultation process between the village committees and insurance salesperson. This distribution channel was pioneered by China Life's Jinzhong Branch in Shanxi. In such distribution models, there may be higher risks of fraud, as it is difficult for insurance companies to exert control over the sales and administration of insurance policies.

[21] GIZ (2018): Microinsurance distribution channel report 2018. Retrieved 30 March 2020 from https://mefin.org/files/Microinsurance%20Distribution%20Report.pdf

[22] Cebuana (2018): Eight million Filipinos now covered by Cebuana Lhuillier microinsurance. News release. Retrieved 30 March 2020 from https://www.cebuanalhuillier.com/eight-million-filipinos-now-covered-cebuana-lhuillier-microinsurance/.

[23] A2ii (February 2018): China Access to Insurance Diagnostic: A Market and Regulatory Analysis. Retrieved 30 March 2020 from https://cenfri.org/wp-content/uploads/2018/03/China-Access-to-Insurance-Diagnostic-.pdf.

Noncommercial groups, inclusive of NGOs, faith-based organisations and affinity groups, also form an important distribution channel for microinsurance. In Indonesia microinsurance is also sold through Arisans, which are community-based informal financial groups. Each Arisan group has its own priorities, such as savings, raising capital and/or offering coverage for specific risks. Benefits offered by Arisan include elementary school tuition fees, inpatient hospital stays and payment of member death costs.[24] Scale remains a challenge with such channels due to their informality and thus the limited size per Arisan group. However, a digital Arisan network has recently emerged where there may be potential for distributing microinsurance.

We also observe some proportion of microinsurance products distributed digitally. In Indonesia, we saw that PasarPolis has partnered with various e-commerce platforms in the region, including Go-Jek, Tokopedia and Traveloka. As of 2018, PasarPolis has sold approximately 250,000 microinsurance policies to Go-Jek's pool of 800,000 drivers, demonstrating an effective way to achieve scale at much lower cost.[25] Such innovations in distribution would be critical in encouraging traditional insurers to sell microinsurance, as they make for a more viable and cost-effective business model. As we observe the rise of insurers partnering with digital platforms, it is of utmost importance to ensure that customer-centric principles are also adhered to in product development. The authors have observed a tendency for insurers to sell their existing insurance products on large e-commerce platforms without tailoring for the needs of digital customers. Wide networks of customers and products on shelf does not necessarily equate to great sales. *With insurance products classically described as products "sold not bought," the digital customer journey must be tailored to the needs of clients.*

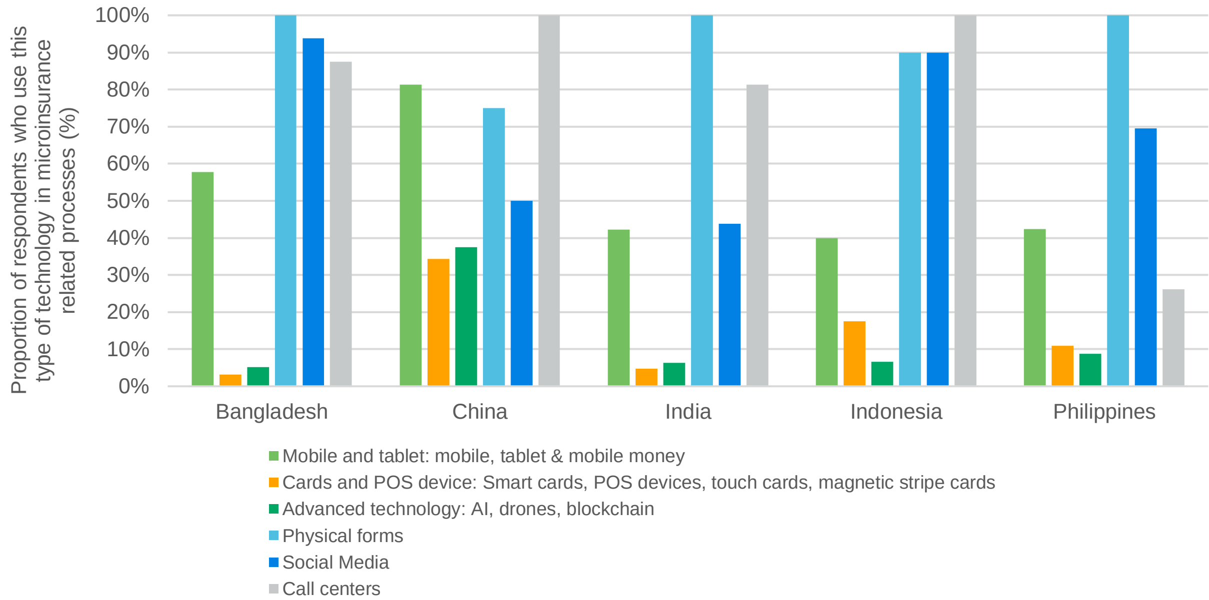
[24] Allianz AG, GTZ and UNDP (2006). Microinsurance Demand and Market Prospects – Indonesia. Retrieved 30 March 2020 from https://www.findevgateway.org/paper/2006/01/microinsurance-demand-market-prospects-indonesia

[25] CBINSIGHTS (1 February 2019). The Massive Opportunity for Insurance Tech in Indonesia. Research Briefs. Retrieved 30 March 2020 from https://www.cbinsights.com/research/insurtech-startups-indonesia/.

Section 6. Use of technology

The use of technology in the delivery and management of microinsurance policies, including marketing, premium collection, claims payment and customer service, varied across the countries surveyed (Figure 17). However, as per Figure 18, it should be highlighted that more than half of respondents use mobile and tablet technology in their microinsurance processes, with advanced technology being most prevalent in China. All countries remain reliant on technology in physical forms, including the Philippines, where microinsurance outreach is highest in the world.

FIGURE 17: PROPORTION OF DIFFERENT USE IN TECHNOLOGY FOR MICROINSURANCE PROCESSES



The penetration of smartphones is correlated to the usage of smartphones in microinsurance operations, as can be seen in Figure 19 below. Based on GSMA's projection of the smartphone adoption rate between 2018 and 2025, India will likely see the highest growth, followed by China, Indonesia and the Philippines (see Figure 20 below). As the adoption of smartphones continues to rise around the world, it is also clear that the use of smartphones in microinsurance processes will also increase. When feature phones are included the data, less correlation can be found between the penetration of technology and its adoption in operations. This is likely because the penetration of mobile phones (inclusive of feature phones) is relatively close to 100%, making it challenging to see distinctions between the countries under investigation.

FIGURE 18: USE OF MOBILE PHONES FOR MICROINSURANCE PROCESSES AND PENETRATION RATES

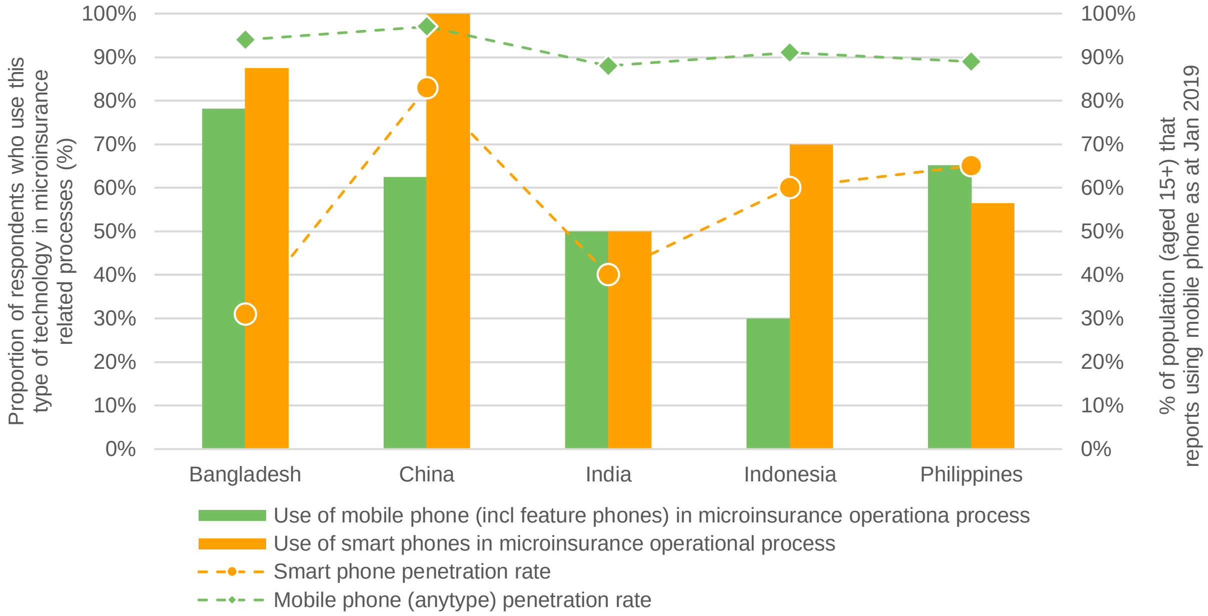


FIGURE 19: PROJECTED SMARTPHONE ADOPTION RATE BY GSMA[26]

	CHINA	INDIA	INDONESIA	PHILIPPINES^
2018 SMART PHONE ADOPTION RATE	69%	54%	71%	63%
2025 SMART PHONE ADOPTION RATE (PROJECTED)	88%	78%	89%	79%
PROJECTED INCREASE	19%	24%	18%	16%

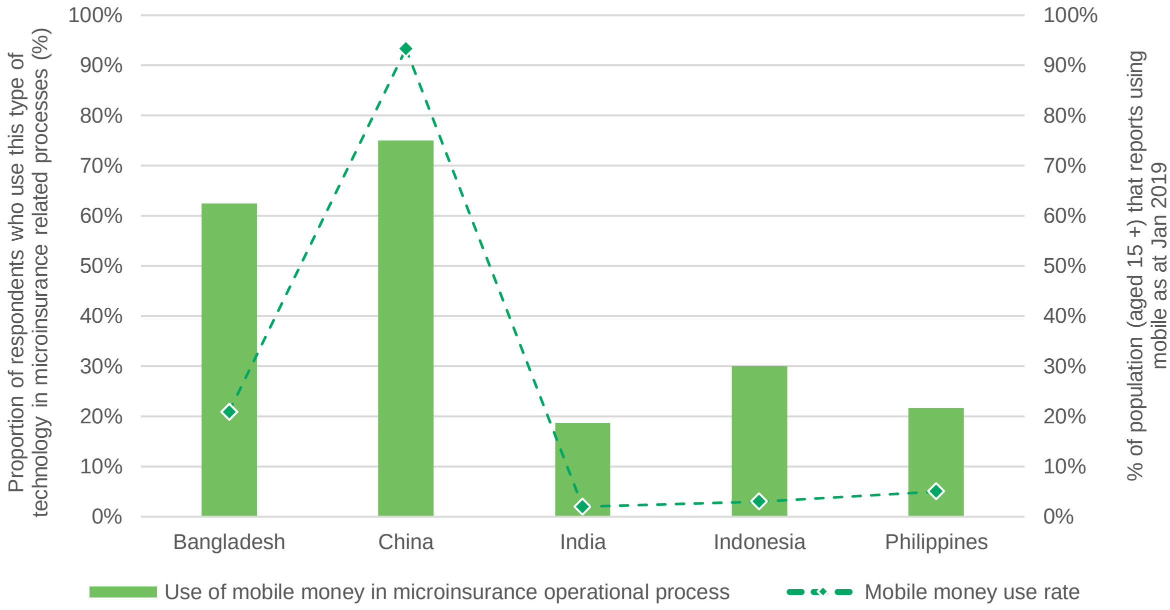
^ Data for the Philippines is based on 2017 projection.

Note: Data is unavailable for Bangladesh and thus are not included in this table.

[26] See https://www.gsmaintelligence.com/research/?file=fe8735424e3058f98c3a83bc57bc2af5&download (subscription required).

Similar to smartphone adoptions, the penetration of mobile money is also found to be strongly correlated to the usage of smartphones in microinsurance operations, as can be seen in Figure 20. In the growth of mobile money, Asia (apart from China) has not witnessed the same level of success as in sub-Saharan Africa in the past, thus it is playing catch-up in the market. GSMA projects that MNOs need to diversity their mobile money propositions to remain competitive, opening the opportunity for operators to offer adjacent financial services such as insurance.[27] Insurers should prepare their technology platforms and their integration with other systems in light of such potential growth in the market in the adoption of mobile money and mobile phones.

FIGURE 20: USE OF MOBILE PHONES FOR MICROINSURANCE PROCESSES, AND PENETRATION RATES



In comparison to the other countries there is a high usage of more advanced forms of technology, inclusive of chatbots, artificial intelligence (AI) and blockchain in China. Such an observation is in line with AI and blockchain technology adoption within the conventional insurance arena. The adoption of chatbots and AI technology is typically used to provide customer service and for policy management. The Xing Hu Bao Online Mutual Aid platform (as introduced in Section 4 above) is also an early adopter of blockchain technology. The transparency associated with the adoption of blockchain technology is also one of the key reasons for the high take-up of this product. This is also a case in point that customers value technologies providing greater transparency, which ultimately translates to trust in the operations of the product.

Technologies in healthcare—such as wearable devices with smartphones—have also been a driving force in the market, enabling insurers to improve the customer experience and provide an incentive for healthy behavior in China. This includes Ping An's Good Doctor, Tencent's Guahao.com and Chunyu Doctor, which now provide m-health services through a digital channel, whereby a client can receive remote health advice.[28]

[27] Ibid.

[28] Milliman (2019). Microinsurance Assessment, China. For the International Fund for Agricultural Development (IFAD)-financed project Managing Risks for Rural Development. Promoting Microinsurance Innovations.

All countries remain reliant on technology in physical forms, including the Philippines. In the Philippines, despite its success, microinsurance providers there continue to be heavily reliant on physical forms for microinsurance processes, such as applications, payments and collections. This is somewhat surprising given the high mobile phone penetration rate in the Philippines, whereby, as at 2019, 65% of the population owns a smartphone and a further 24% owns feature phones, in line with the emerging economy median of 78%. A driving factor is the use of Cebuana and other money remittance networks in this market, which has been a big competitor of digital money. In the Philippines, MBAs also suffer from resource constraints with regards to optimising or upgrading their management information system automation.[29] This problem is exacerbated by their restricted capacity to spend only up to a maximum 20% of their gross contributions for administrative and operating expenses. Despite the lack of the use of technology in microinsurance processes, the Philippines has the highest outreach of microinsurance to the population compared to any other countries considered in the study. This indicates that technology is not necessarily essential to develop a successful microinsurance model, but it is still a valuable tool to help enhance the delivery and management of microinsurance.

Nevertheless, we expect increased use of technology, particularly mobile technology use, by microinsurance providers, which we anticipate will result in innovative solutions and further widening of outreach of microinsurance customers, as long as the new technologies are accessible to the low-income markets. Kim Vincente, author of *The Human Factor: Revolutionizing the Way People Live with Technology*, commented: "…design should begin by identifying a human or societal need—a problem worth solving—and then fulfil that need by tailoring technology to specific, relevant human factors."[30] As insurers adopt more advanced technology, the more the human dimension should matter and be taken into consideration for its development.

[29] Discussion with Junjay Perez, Executive Director of RIMANSI.

[30] Kim Vincente. *The Human Factor: Revolutionizing the Way People Live with Technology*.

Section 7. Key takeaways

Each of the markets considered in this study is unique in its approach to developing and growing microinsurance. Hence, it is clear that there is no "one size fits all" solution in developing a successful microinsurance market. We observe the following key takeaways from this study:

Operating environment:

- In well-developed microinsurance markets such as the Philippines, insurers tend to place greater levels of importance on selling microinsurance in their companies. In instances where limited importance is placed on microinsurance, like the case of Indonesia in which little growth was observed. However, the importance of microinsurance valued by insurers alone is not enough in driving market development. Other key components of growth include a facilitative regulatory environment, market intelligence, including data, and the availability of distribution channels.
- In order to encourage growth in the microinsurance market across Indonesia, India and China, it is highly recommended for insurers to conduct demand studies to understand consumer needs in the microinsurance segment. Through understanding customer behavior in this segment, innovative channels can also be uncovered.

Products:

- Credit-linked and life products are prevalent across all the markets surveyed. As the market matures, a more diverse range of product offerings is expected to appear to service broader customer needs and diversify insurers' risk portfolios. Such phenomena also highlight the importance for insurers to promote the need for product evolution and risk diversification with regulators and governing bodies, particularly when tax rule are impeding market development.
- Most markets offer products on an unbundled basis to make them more affordable to consumers. As the industry continues to place emphasis on the importance of the holistic risk management approach for low-income population, there is clear room for insurers to offer bundled insurance packages across all the markets studied.

Distribution:

- The use of agents as a distribution network is prevalent across all countries. The management of agents, and striking the magical balance between sales and incentives, remain an art more than a science in the microinsurance space. Particularly successful agent models also found that nonfinancial incentives for microinsurance agents can potentially be more effective than financial incentives, particularly at the early stages of building an agency business model.
- Within the retail and commercial network used to distribute microinsurance, a mixture of different channels can be observed. The most notable channels include MNO, pawnshop, postal network and e-commerce network. With insurance products classically described as products "sold not bought," the customer journey must be tailored to the needs of clients.

Use of technology:

- More than half of respondents use mobile and tablet technology in their microinsurance processes, with advanced technology being most prevalent in China. In comparison to the other countries, there is a high usage of more advanced forms of technology (inclusive of chatbots and artificial intelligence) in China.
- All countries remain reliant on technology in physical forms, including the Philippines. Yet the Philippines has continued to be successful in growing its microinsurance market. This indicates that technology is not necessarily essential to develop a successful microinsurance model, but it is still a valuable tool to help enhance the delivery and management of microinsurance.

Nevertheless, we expect to see increasing use of technology—particularly mobile technology—by microinsurance providers going forward, which we anticipate will result in innovative solutions and further widening of outreach to microinsurance customers, as long as the new technologies are accessible to the low-income markets.

To better serve low-income populations, insurers need to transform their business approaches through product evolution beyond basic life coverage, understanding its demand, building robust technical platforms and uncovering innovative distribution channels. In all aspects of microinsurance development, a customer-centric focus remains the utmost important principle. We hope this Asia Microinsurance Supply-side Study can provide insights for insurers on the market outlook, current practice and valuable lessons of success and failure observed in the industry.

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CONTACT

Michael J. McCord
Michael.McCord@milliman.com

Farzana Ismail
Farzana.Ismail@milliman.com

Queenie Chow
Queenie.Chow@milliman.com

Indira Gopalakrishna
Indira.Gopalakrishna@milliman.com

Nidhi Kushwah
Nidhi.Kushwah@milliman.com

Natasha Su Sivarajah
Natasha.Sivarajah@milliman.com