



MILK Brief #3: Business Case Landscape Study¹

What is Meant by a Business Case for Microinsurance?

There is a business case when the investment of capital and other resources in microinsurance are justified over time such that the benefits, costs and risks balance out to create a commercial rationale for insurers, intermediaries and distributors seeking to enter and sustain a position in microinsurance.

Key Lessons from the Landscape Review

MILK conducted a detailed review of existing literature related to the business case for microinsurance. Hundreds of microinsurance studies were reviewed, and while many touched upon business case issues, only forty-seven studies had particular relevance to an understanding of business case. Together, these studies begin to provide a framework for assessing the business case for microinsurance.

Existing literature represents a fairly robust “how to” but provides few conclusive answers about “whether” there is a business case for microinsurance or “why” a profit motivated firm should enter the field. The table on page 2 summarizes opportunities and challenges identified from the existing literature, as well as some of the many open questions that remain. The following are some key lessons gleaned from the landscape review that will inform MILK’s approach to the business case analysis moving forward:

- **Measuring Business Case.** Accurate, detailed financial metrics are vital to understanding whether and when a business case exists, but many programs do not track such data or do not segregate microinsurance data from other lines of business. Promising new efforts such as the Global Database on Microinsurance Project and the Microinsurance Network’s Performance Indicators Initiative may help to fill this gap in coming years. A comprehensive analysis of business case requires capturing financial outcomes and measuring how they change over time, and then combining these with subjective, qualitative learnings to understand the many variables at play and the differing motivations of various stakeholders.
- **Thinking About Microinsurance as a Unique Set of Product Lines.** Microinsurance is a distinct line of business, facing its own unique challenges and opportunities; it is not an extension of microcredit or a downscaling of traditional insurance products. Conversely, there is no one-size-fits-all approach to microinsurance. Finding the appropriate business model requires consideration of contextual factors including the insurer, the product, the target market, and the regulatory environment.
- **Designing Products.** Effective product design requires balancing the need for simple products that are easy to understand and market with the limits, exclusions, and customizations that can mitigate risk and enhance demand and profitability. Marketing (which often includes an education component) is crucial for both mandatory and voluntary products.
- **Looking at the Entire Value Chain and Engaging All Stakeholders.** A true understanding of whether and when microinsurance can be a sustainable, profitable business requires insight into the operations of insurers, intermediaries, and distributors. A sustainable business case ultimately requires a business case for all links in the value chain. Discussions about enhancing the business case for microinsurance should engage all of these parties as well as other stakeholders, including donors, governments, and regulators.

Moving Forward

Through alliances with researchers and practitioners, MILK will provide answers to some of the questions identified above, reviewing the industry as a whole to understand trends in microinsurance in addition to completing in-depth case studies of particular insurers, intermediaries, and delivery channels.

¹ This brief summarizes the findings of a landscape study performed by MILK. The full report is available at www.microinsurancecentre.org



Opportunities, Challenges, and Open Questions Regarding Business Case

		Opportunities	Challenges	Open Questions
Product	Demand	Insurers are beginning to customize products to meet client demand.	Health insurance is often the product in greatest demand, but also hardest to execute. Target population has limited understanding of insurance.	Is the industry demand- or supply-driven? What is the right balance? Who is responsible for and best able to provide needed client education?
	Mandatory / voluntary	Mandatory products can overcome adverse selection issues and avoid some marketing challenges. It's easier to achieve scale and profitability with mandatory products.	Mandatory products often have low premium potential, and can become low margin and commoditized. Voluntary products often have low rates of uptake.	Can voluntary products overcome the challenges and reach scale and profitability? How best to market voluntary products? What role does consumer education play in the process and whose responsibility is it?
	Distribution	New distribution channels are opening up to microinsurers.	Microfinance institutions have been the most common channel, but don't always have the focus or capacity to be effective. Developing distribution from scratch is expensive and time consuming.	Can there simultaneously be a business case for the insurer and the delivery channel? How can product be matched to channel most effectively?
Program	Growth	Large untapped market suggests enormous potential for growth.	Understanding market size and growth from the perspective of traditional insurance in developed markets may be flawed. Traditional products, practices and channels may not be effective.	How many clients are needed to achieve sustainable scale? How quickly can growth occur? Will enough qualified managers be available for the growing number of microinsurance enterprises?
	Age	There are over 300 programs, some of which are over 10 years old, and many new programs are created each year.	It's not yet known whether some fundamental challenges, such as effective distribution and efficient administration, are a function of time.	What is the appropriate time horizon to determine whether a program can be successful? What data is needed to determine this?
	Business model	Partner-agent model has been most common and can create efficiencies by linking into existing networks and resources. Intermediary (broker) businesses are emerging as prominent players. Insurers are testing direct retailing.	Partner-agent may not always be a win-win, when an insurer or distributor is unreliable or ineffective. None of the intermediary models have scaled up sufficiently to cover their home office costs.	Can direct retailing be successful on a large scale? Which business models are appropriate to which products?
	Operations	Outsourcing business processes and use of technology can increase efficiency.	Expense ratios that exceed claims ratios are unsustainable.	How and to whom can processes be outsourced cost effectively while retaining sufficient control over quality?
	Risk	Adverse selection and moral hazard, can be addressed through product design; covariant and catastrophic risk can be managed through reinsurance.	In a young industry where accurate claims data is unavailable, assessing risks is especially difficult.	What is the appropriate role of reinsurers? How to balance the need for simple products with limiting provisions?
	Stakeholders	Large insurers	Large multinational insurers and reinsurers are increasingly interested in microinsurance, and bring capital, technical expertise and operational capacity in an emerging market.	Traditional delivery channels may not be appropriate for microinsurance clients, and large insurers may not be flexible and enough to modify products and procedures as needed.
Donor / gov't		Play a crucial role in supporting the industry, especially in early stages. Some products may always require support (e.g. infrastructure-building)	May distort inputs and outputs of microinsurance enterprises.	Where can donors best help to develop the business case? What is the exit strategy? Can they fill gaps where business case is weak but products have value?
Regulators		Regulation can be helpful if tailored in a way that is well-suited to microinsurance initiatives.	Regulatory schemes appropriate for traditional insurance can be costly, complicated, and time-consuming in ways that inhibit growth of microinsurance.	What is the optimal balance between providing appropriate safeguards and stimulating growth? How can regulators be drawn into discussions?

Microinsurance Learning and Knowledge (MILK) is a project of the MicroInsurance Centre that is working collaboratively to understand client value and business case in microinsurance. Barbara Magnoni leads the client value effort and Rick Koven leads the effort on the business case. Contact Michael J. McCord (mjmccord@microinsurancecentre.org), who directs the project, for more information.