

Region: Africa and Asia**Sector:** Insurance**IFC Investment:** \$2.2 Million

MicroEnsure

The insurance industry has long been perplexed by the economic realities of insuring the world's poor. As a group they represent a \$40 billion market opportunity,¹ yet they also present greater risks than typical insurance customers and are able to afford only miniscule premium payments. How, then, can this group of four billion people become a viable business opportunity? One company, MicroEnsure, has found solutions.

MicroEnsure has developed pioneering insurance solutions for low-income people in Africa and Asia living on less than \$4 per day. The company is a microinsurance solutions provider and, in some countries, an insurance intermediary—an agent or broker that matches the needs of potential customers to appropriate insurance options and that receives a commission from insurers for each policy sold.²

MicroEnsure has introduced over 200 types of insurance including for life, health, and accidents (*Table 1*). Since low-income customers are often new to insurance, the company distributes its products through mobile network operators, microfinance institutions, and other organizations that low-income customers trust.

MicroEnsure bundles insurance with products that potential customers already use, including micro loans and mobile phone airtime.

The company currently operates in 15 countries, including 10 in Africa. Its customer base has grown from two million in 2008 to more than 40 million today, and to date it has paid more than \$20 million in claims. Its distribution network includes 17 mobile network operators, 90 microfinance institutions, and a wide array of other partners such as agricultural suppliers, health clinics, nongovernmental organizations, faith-based networks, and associations. The International Finance Corporation, global insurance company AXA Group, the impact investor



Omidyar Network, and Sanlam Emerging Markets are MicroEnsure's backers. The company is headquartered in the United Kingdom with offices in nine countries.

The idea for MicroEnsure originated in 2002 as a program within the microfinance institution Opportunity International; by 2005 it had grown large enough to become a separate nonprofit known as the Micro Insurance Agency (MIA); it was re-launched in 2008 as the for-profit company MicroEnsure.

THREE CRITICAL ROLES TO INSURE THE POOR

MicroEnsure works with partners across the insurance value chain to develop and deliver affordable insurance solutions. It tailors its role depending on the needs of its partners, but broadly plays three key roles.

First, MicroEnsure analyzes a country's market for microinsurance. It then identifies insurance and reinsurance companies and brings them on board to bear the risk of insuring customers.

Second, MicroEnsure mobilizes distribution partners—companies and organizations with high levels of trust among the poor—to get insurance into the hands of customers.

Third, MicroEnsure provides integrated back-office services to its insurance and distribution partners, including product design and marketing, risk selection, underwriting, and pricing. In most cases, MicroEnsure also collects premiums from customers and facilitates claims payments on behalf of insurers. It also collects and analyzes customer data, enabling it to develop new insurance products.

Table 1: A Selection of MicroEnsure's Products

INSURANCE TYPE	INDICATIVE COVERAGE OPTIONS
Life	<ul style="list-style-type: none"> • Payment of a borrower's outstanding loan amount plus interest • Fixed payment to cover funeral costs for a borrower/bank customer and his/her family • Basic coverage at no direct cost to customer, but linked to the amount of mobile airtime purchased each month or the amount of money held in a savings account at a bank or micro finance institution
Credit Health	<ul style="list-style-type: none"> • Covers the total or a part of the borrower's outstanding loan payment installments after hospitalization
Hospitalization	<ul style="list-style-type: none"> • Payment of a fixed amount to cover cost of hospital stay and/or for any type of expense per day of hospitalization based on monthly mobile airtime purchase
Disability	<ul style="list-style-type: none"> • Benefits for disability through illness or accidents, with simple and clear definitions
Redundancy	<ul style="list-style-type: none"> • Payment of an unemployed person's outstanding loan amount plus interest or a multiple of his/her bank deposit amount in the event of an employer downsizing or similar redundancy
Political Violence	<ul style="list-style-type: none"> • Payment of outstanding loan amount plus interest if a borrower's business is destroyed
Property	<ul style="list-style-type: none"> • Payment of a borrower's outstanding loan amount in the event of fire, flood, or damage from another catastrophic event³

Note: Insurance premiums are paid by different parties. They can be embedded within loans and paid by borrowers as an upfront fee. A microfinance institution, bank or mobile network operator may cover premiums for basic insurance to incentivize customers. For example, these companies may link basic insurance coverage to a certain amount of mobile airtime purchased or the amount deposited in a savings account.



MicroEnsure's Value Chain

An Overview of Challenges and Solutions



Value Chain

Product Development	Distribution	Marketing & Sales	Customer Service
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Challenges in Insuring Low-Income Customers

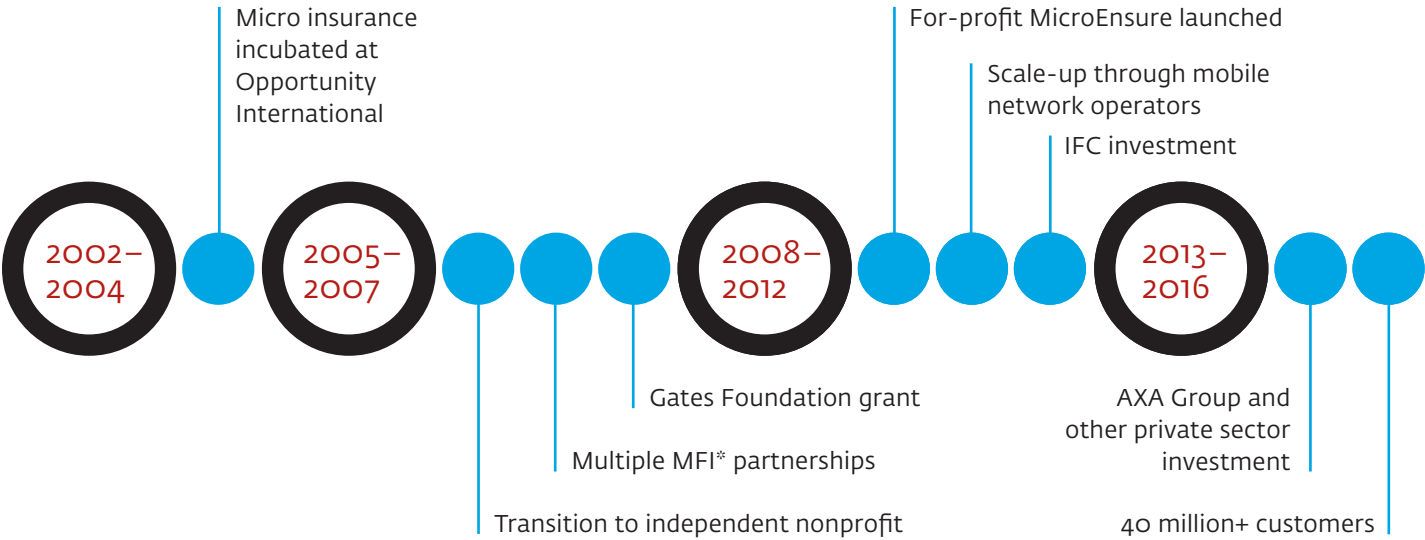
<ul style="list-style-type: none"> Mainstream insurance does not address key needs Complex terms and conditions are difficult to understand 	<ul style="list-style-type: none"> Sales agents increase distribution costs High distribution costs increase premiums 	<ul style="list-style-type: none"> Limited understanding of insurance Negative perception of insurance companies 	<ul style="list-style-type: none"> Large number of documents needed for claims Lengthy claims process Discrimination against poor customers
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MicroEnsure's Solutions

<ul style="list-style-type: none"> Tailors products to grassroots realities Simplifies terms and conditions Uses innovative approaches to design new products 	<ul style="list-style-type: none"> Works with partners that already have large distribution networks Selects distribution partners that have built trust and credibility Uses mobile phones to enroll customers 	<ul style="list-style-type: none"> Creates trust through word-of-mouth marketing and customer testimonials Insures common events to build understanding of insurance Enables customers to try basic insurance with airtime purchases or bank deposits 	<ul style="list-style-type: none"> Simplifies documents required for a claim Guides customers through the claims process Accepts claims through mobile applications Settles claims quickly Uses mobile wallets to facilitate payments to unbanked customers
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Figure 2: Key Milestones in MicroEnsure's History



*Micro finance institution

GETTING AN IDEA OFF THE GROUND

The seeds of MicroEnsure were planted in 2001 when Richard Leftley, a 29-year-old broker with reinsurance firm Benfield Greig in London, took a volunteer trip to Zambia.

Leftley encountered a young mother who lost her child because she could not pay \$3 for hospital admission and another woman who had fallen into poverty after a death in her family. And while micro loans had helped many women start businesses, some borrowers were unable to repay the loans due to family deaths or illnesses, natural disasters, or other life events, and could be driven to debt and poverty as a result. Leftley believed insurance could provide many of these people with a safety net. The evidence was in India, the Philippines, and Uganda, where a handful of microinsurance products were already on the market. And he saw the gap between supply and demand for insurance in these poor communities as a significant untapped opportunity.

In 2002 Leftley, who would eventually go on to become chief executive officer of MicroEnsure, quit his job to join microlender Opportunity International. He set out to design insurance for people living on just a few dollars a day, convince them to purchase it, and then to find a cost-

Within four years, the initiative expanded from Zambia to the Philippines, Uganda, Malawi, and Ghana, reaching 300,000 customers.

effective model to distribute insurance on a large scale. To do so he launched a microinsurance initiative with an operational budget of \$100,000 for the first year.

Opportunity International selected Zambia for its pilot insurance program because of the country's dire health situation. In 2002 one of every four Zambians had HIV/AIDS, and the average life expectancy was 36. Working with ZSIC, a local insurance company, Opportunity International rolled out an insurance product called Credit Life that it could offer with its micro loans. A borrower paid one percent of the total amount of the loan upfront to get insurance coverage for the outstanding loan payment in the event of his/her death. The policy reduced the default risk for Opportunity International and gave borrowers reassurance that their death would not leave their families burdened with debt. Within a year, Opportunity International added funeral coverage, which could cost between three and six months of a family's income, to Credit Life.

The Zambia pilot was a success. Opportunity International reduced the workload and the costs for insurers to serve this relatively low-margin market by tapping into its own customer base and by collecting insurance premiums on behalf of insurers. Within four years, Opportunity International's microinsurance initiative expanded from Zambia to the Philippines, Uganda, Malawi, and Ghana, reaching 300,000 customers. At the same time, it began to offer coverage for disability and for property damage from fires and natural disasters.

To expand further, Opportunity International launched the Micro Insurance Agency (MIA) in 2005 as a nonprofit subsidiary, with Leftley as its CEO. MIA developed products for insurance companies in a comprehensive process that ranged from market assessments and product design to selecting distribution channels and providing back-office support. By 2007, MIA had partnered with more than 20 microfinance institutions in 11 countries. That same year a \$24.25 million grant from the Bill and Melinda Gates Foundation launched a period of rapid expansion for the company.

SETTING A GOAL: HOW TO SERVE FOUR BILLION PEOPLE

MIA faced a strategic choice in 2008: Stay small or expand to serve a potential multi-million customer base? The latter path would require access to debt and equity financing to provide the necessary operational flexibility, rather than relying on donors who tend to support clear-cut projects tied to specific outcomes. The choice was clear, and in 2008 MIA's board voted to establish MicroEnsure Holdings, Inc., a for-profit company which took over MIA's operations.

By 2009, MicroEnsure had reached four million people through partnerships with more than 30 microfinance institutions, rural banks, and savings and credit cooperatives in seven countries. Its groundbreaking work was having an effect on the broader market: More microlenders were linking with insurers and with other insurance intermediaries that had entered the market.

The roughly 130 million microfinance borrowers⁴ around the globe were the original target for MicroEnsure's products, yet the company was aware that reaching beyond that base to the four billion uninsured people living on less than \$4 day was essential to keeping its insurance products affordable in the long run.⁵ Without a large enough risk pool the costs of insurance products would cease to fall, an essential condition for the company to achieve financial sustainability. Also, it was clear that solid underwriting and operational discipline were necessary but not sufficient to the goal of reaching individuals without insurance or back accounts; finding the right distribution channel was also critical.

MicroEnsure needed a distribution partner with a large geographic footprint, a strong brand that low-income customers trusted, easily accessible points-of-sale, and the ability to facilitate cash transactions and payments when needed. It also needed a partner that wanted to leverage insurance to help grow its own business, which would align incentives and create a beneficial relationship for both parties.

SERVING THE MASS MARKET

Mobile network operators emerged as particularly promising partners for MicroEnsure for several reasons. Low-income customers were increasingly using mobile financial services to pay utility bills, send remittances to family members, and recharge airtime. Insurance products would be a natural addition to that list of mobile phone-delivered products.

Also, MicroEnsure believed that mobile operators could use insurance as a way to build loyalty among subscribers. Mobile phone subscribers in many emerging countries hold multiple (two to four) subscriber identity module (SIM) cards from various providers in order to save money using different airtime and messaging rates. A mobile operator could stand apart from its competitors by bundling basic insurance with airtime.

And with mobile phone technology widespread in developing countries, mobile network operators have

unique access to millions of customers, including many in remote rural areas. Those customers could be reached frequently and cost-effectively through mobile phones. That access could lower the costs associated with marketing insurance products, registering customers, collecting premiums, and paying claims. Mobile operators also had large agent networks for face-to-face interactions with customers and, perhaps most important, the poor often trust their mobile service providers more than other institutions.

In 2009, MicroEnsure created an innovative “freemium” product that would provide a certain amount of life or health insurance at no cost to a mobile phone subscriber. The insurance amount would be based on the total airtime the subscriber purchased each month and would be communicated to customers by text message. Coverage would apply to the subscriber and a designated family member. Mobile operators would pay a fee to MicroEnsure and the local underwriter for providing basic coverage, and

Design for the Local Context.



Low-income customers are not homogenous, so insurance products must be tailored to their particular needs. Rather than designing products in a boardroom, directly engage potential customers in interviews to understand what they need to cope with risk.

Cover Likely Events.



A low-income customer's first inclination is to go without insurance. So insurers need to focus on designing products those customers are likely to use, i.e., products with high potential for a claim such as those that cover accidents.

MicroEnsure's Product Design Principles

Create Simple Policies.

It is important to state clearly what is and is not included in an insurance policy and to have minimal exclusions and understandable terms and conditions. Also, waiting periods, age restrictions, and limits on the type and number of claim documents must be removed.



Think Outside the Box.

Insurers need creative solutions to address the broad range of risks that low-income customers often experience (see page 41, “Three for Free” Mobile Insurance).



customers could upgrade to premium coverage after six months for as little as \$1 per month.

MicroEnsure and Tigo Ghana, a subsidiary of the global telecom firm Millicom, launched the first “freemium” insurance product in 2010 and MicroEnsure played a pivotal role in bringing the product to life. It also tested options for paid insurance and learned that customers were willing to pay \$0.50 to \$1.50 per month in premiums to increase their coverage. The partnership with Tigo soon expanded to Tanzania and Senegal, reaching one million people within 14 months.

ATTRACTING COMMERCIAL INVESTORS

MicroEnsure benefited from the backing of a strong and diverse but changing group of investors at critical points in its development. The Gates Foundation grant fueled MIA’s rapid expansion into 10 countries and boosted its subscriber base from 2 million to 15 million between 2008 and 2012. It also enabled the company to reach the critical stage where it could attract commercial investors.

By mid-2012 MicroEnsure decided that equity financing would provide it with greater flexibility to rapidly test different approaches and products. Recognizing this need, Opportunity International—which had maintained a majority stake in the company since its founding—made a strategic decision to divest and retain only a minority stake in MicroEnsure. This allowed MicroEnsure to attract new investors. IFC, Omidyar Network, and select members of MicroEnsure’s management team became shareholders in 2013. IFC invested \$2.2 million in equity and debt to help MicroEnsure attract more commercially-minded investors and support the company’s transition to a financially sustainable, for-profit entity. This was IFC’s first direct investment in an insurance intermediary and presented an opportunity to support innovative approaches in the microinsurance space.

FREEMIUM PRODUCTS FOR HEALTH CARE AND SAVINGS

Medical Freemium: In Kenya, MicroEnsure worked with Airtel and Pan Africa Life Assurance to offer hospitalization coverage to Airtel customers. With monthly airtime usage of approximately \$2.40, customers received \$9.60 in hospitalization coverage and \$96 in life and accident coverage. The more customers spent on airtime, the greater their insurance coverage would become. Customers could earn up to \$48 in hospitalization coverage and \$960 in life and accident coverage based on their airtime usage.

Savings Freemium: MicroEnsure worked with banks such as Barclays and microfinance institutions such as Women’s World Banking to incentivize customers to open a savings account rather than keeping money under their mattresses. Financial institutions paid insurance premiums on behalf of their customers, which enabled them to earn a certain amount of life insurance based on the balance in their savings accounts. Mary Nkenshen, a food vendor in Ghana, was paid \$329 upon the death of her husband, who had saved \$114. Other products provided a fixed payout of five times the savings account balance in the case of a customer’s death or disability.



In addition to financial institutions, MicroEnsure sought mobile network operators as investors because of their large customer bases. The Norwegian multinational telecom firm Telenor Group became a strategic partner in 2013 and launched MicroEnsure Asia as a joint venture to serve over three million mobile phone subscribers. With the capital infusion, MicroEnsure expanded to 15 countries.

DRIVING DOWN DISTRIBUTION COSTS

With small insurance premiums, distribution costs had to be minimized in order to generate enough revenue for all parties. As it scaled up its mobile network partnerships, MicroEnsure opted for a low-cost model that allowed customers to self-enroll for insurance and pay premiums through a mobile phone instead of more costly models that required an agent. In the latter model, network operators would have paid commissions to agents to register customers which would have required agents to quickly register a large number of customers to be cost effective.

Moreover, the Tigo Ghana experience demonstrated that customers purchased insurance based on the perceived value of the insurance and its connection to the network operator's brand, regardless of an agent's presence to explain the product. And it became clear that the poor were all too aware of the potential for risks to devastate their lives. So the company decided to expand insurance benefits to address a wider variety of risks rather than spend money on agent-based customer education and enrollment. This strategy included the decision to offer "Three for Free," another "freemium" product that combined life, accident, and hospital coverage, and also helped mobile network operators attract and retain subscribers.

THE VALUE OF SIMPLICITY

MicroEnsure discovered that, while low-income customers experience risk in their daily lives, they are often unfamiliar with the potential benefits of insurance. To remedy this, the company used word-of-mouth to educate potential customers. It also paid claims at public events to increase awareness of and exposure to its products, circulated customer testimonials, and made rapid claim payments to alleviate commonly held concerns and doubts about insurance.

To simplify enrollment through mobile phones, MicroEnsure reduced its registration process to a few easy-to-follow steps. Mobile network customers automatically received insurance with airtime recharges, but could opt-in for additional coverage through a drop-down menu or a voice response system on their phones, or by contacting a call center.



GETTING THROUGH CRISES AND LOOKING AHEAD

In a crisis, poor customers need money right away to address immediate needs. So MicroEnsure established a 72-hour turnaround time for claim processing. The company found that customers who had a negative claims experience were more likely to drop coverage altogether. MicroEnsure took several steps to ensure this didn't happen:

- **Hand-holding.** Because claimants often had difficulty identifying the necessary documents to file a claim, causing delays, MicroEnsure realized it could create powerful visibility for its products by providing assistance. The company established call centers to contact customers who submitted claims. In doing so MicroEnsure simultaneously raised customer awareness about insurance and reduced fraud.
- **Accepting Simple Documentation.** In many remote areas in emerging countries it is difficult or even impossible to get formal documentation for insurance claims. In these cases, MicroEnsure created alternative means of identifying claimants. In Kenya, a life insurance claim typically required a government-issued death certificate. Since beneficiaries in remote areas often struggled to obtain that document, MicroEnsure was willing to accept a letter from an imam or pastor who officiated at the funeral.
- **Facilitating Claims Payments Through Mobile Wallets.** Mobile payments enabled customers who lacked bank accounts or proximity to a bank to receive claims payouts on their phones. These payments could then be cashed-out quickly through local mobile money agents.

As other insurance intermediaries engaged with mobile network operators and the early growth rates of "freemium" products slowed, MicroEnsure needed

"THREE FOR FREE" MOBILE INSURANCE

Funerals in Ghana are costly, and for Cornelius Tetteh's father, a pastor, there would be hundreds of guests traveling across the country to pay their respects. Tetteh had little money to pay for the event. Luckily, his father had enrolled in a life insurance policy over his mobile phone through MicroEnsure's partner Airtel, a giant in telecommunications services in Africa and Asia.

Airtel subscribers can qualify for life, disability and hospitalization insurance designed by MicroEnsure based on the amount of monthly airtime they use.

Tetteh learned about the policy through a text message sent to his father's phone. As next of kin, he received the equivalent of \$725, enough to properly celebrate his father's life. "Airtel Insurance comes in handy in Ghana where funerals are tremendously expensive," said Tetteh.

Source: MicroEnsure. "Cornelius Tetteh's Story." <http://www.microensure.com/clientimpact-stories.asp?id=309&start=0>.

additional capital to pursue new growth opportunities. Existing investors provided \$10.4 million in capital in 2014. And that same year French insurance giant AXA Group, which operates in 59 countries, became a shareholder. Sanlam Emerging Markets, a financial services group, also invested, and both companies brought critical capacity and skills to help MicroEnsure continue its expansion.

In early 2016, MicroEnsure raised an additional \$15 million from existing investors, including IFC, and AXA Group became its largest shareholder.

CONTINUOUS LEARNING

In less than a decade MicroEnsure grew from a small initiative housed in a microfinance institution into a for profit company serving millions of customers. Its “fail fast” mindset, which looked to constantly innovate and rapidly revise strategies that weren’t working, helped the company learn and adapt along the way so that it could remain responsive to the needs of the low-income customers it aimed to serve.

Since the poor largely didn’t value insurance and wouldn’t pay outright for premiums, MicroEnsure found ways to make insurance more palatable and attractive to them. Partners were critical to the endeavor. Microfinance institutions could use insurance to lower the risk of loan default by embedding insurance within a loan at a low fee to the borrower. Mobile network operators paid customers’ premiums for basic insurance coverage as an incentive to attract and build loyalty. MicroEnsure found that once the poor experienced the benefits of insurance at little or no cost, they quickly became willing to pay a small premium to expand their coverage.

MicroEnsure has made great strides in insuring the poor, but continues to strive to change perceptions of insurance. The company will maintain an iterative approach to refine its business model as it embarks on the next phase in its evolution.

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ENDNOTES

- 1 Figures based on insurance premiums. Swiss Re. 2010. “Microinsurance—Risk Protection for 4 Billion People.” 2010.
- 2 Other sources of revenue are back office support and consultancy fees.
- 3 MicroEnsure provides property insurance to microfinance and small-business borrowers for their business premises. These borrowers include traders and vendors who operate small stalls or kiosks in markets, mom-and-pop shops that sell a variety of products, and service providers such as small auto repair shops.
- 4 IFC. 2015. Microfinance. http://www.ifc.org/wps/wcm/connect/Industry_EXT_Content/IFC_External_Corporate_Site/Industries/Financial+Markets/MSME+Finance/Microfinance/.
- 5 Based on World Bank statistics, there are around 4 billion people living on less than \$4 per day, including 2.6 billion people living on under \$2 per day (in 2005 international dollars based on purchasing power parity). Source: Swiss Re. 2010. “Microinsurance—Risk Protection for 4 Billion People.” 2010.