



DRIVING INSURANCE AND FINANCIAL INCLUSIVITY THROUGH DIGITAL MICRO INSURANCE

Abstract

Insurance is a crucial financial instrument that protects against losses, stimulates economic activity, and prompts sustained consolidation of capital. However, insurance penetration has been consistently low in developing countries. This PoV explores how the infusion of digital technologies in micro insurance has the potential to spur massive social mobility among lower-income segments. By efficiently providing access to insurance mechanisms, digital micro insurance (DMI) provides greater opportunities, facilitates financial inclusion, and promotes the overall well-being of the underserved parts of society.



Barriers in micro insurance

Micro insurance is, without a doubt, a formidable tool to protect and uplift the economically vulnerable strata of the population. Yet, several hurdles in accessing the ways and means of risk mitigation and compensation keep this broad segment outside the purview of financial inclusion while simultaneously thwarting the growth of this industry.

The paucity of accurate and quality data is one of the primary challenges that deter the underwriting of micro insurance

products. Further, demand-side challenges can severely choke micro insurance pipelines. These include issues such as the prevalent lack of trust between customers and micro insurance providers, owing to a gap in comprehending the product or prior negative experiences with these insurance products.

Demand-side challenges and physical barriers, such as the inability to bring micro insurance products to remote rural areas with sparse populations, hinder the scaling

up of the industry. Lack of access to formal financial institutions such as banks and the in-person nature of processing claims in traditional micro insurance result in a significantly high cost of operation and a protracted turnaround time for claims. Lastly, several insurance providers are dissuaded from providing micro insurance products due to relatively paltry and uncertain profits.

Boosting micro insurance penetration with digital operations

Micro insurance products are intended for low-income individuals, families, and businesses. Deploying digital technologies to achieve a substantial reduction in transaction and management costs can lead to increased viability of micro insurance for the target population. Digital operations can also help allocate a higher percentage of premium towards

payment of claims rather than to meet administrative expenses, prudential margins, and costs of distribution, thereby creating real value for customers.

The development of micro insurance can be propelled by advanced technologies such as electronic money (e-money), big data analytics, IoT, wearable technology, video calls, cloud computing, AI/ML,

chatbots, digital and mobile platforms, and blockchain technology. Insurance providers are increasingly adopting these cutting-edge technologies to increase the financial feasibility of delivering digital micro insurance products. These technologies help them become more agile and hyper-productive.*

The digital micro insurance value chain: Key players

Though each digital micro insurance (DMI) product has a unique value chain and specific stakeholders, four major players

can be identified in the DMI market. They are aggregators which are generally mobile network operators (MNOs), insurers or

underwriters, technical service providers (TSPs), and clients.



Insurers

Insurers play the role of underwriting DMI products. Their functions include

price determination and administration of claims, among others. Based on the

nature of the partnership, technical service providers may be delegated some of these tasks.

Technical service providers (TSPs)

Rolling out DMI products requires technical knowledge, expertise, and experience. In some cases, the MNO as well as the insurer may possess limited proficiency in

handling the technological nature of DMI operations. TSPs function as intermediaries that link insurers, MNOs, and clients by employing robust technology platforms,

sharing their expertise and providing sound advice when required.

Client

The client, in a DMI agreement, generally refers to the end-user of the DMI product. However, certain master policies may be

structured in such a way that as per the terms of the agreement, the aggregator or MNO would be the client of the insurer or

the TSP, and the end-user of the product would be the subsidiary policyholder.

Powering micro insurance with digital technologies

DMI products leverage technology to safeguard against a wide array of potential losses. Here are some examples of how digital technology can be used to efficiently deliver digital micro insurance services to end-users.

- IoT and intelligent CCTV can help gather real-time data for loss mitigation against fire or burglary and safeguard against losses for micro loan holders, like roadside eateries and vendors.

- Radio Frequency Identification (RFID) tags and blockchain-backed distributed ledgers can be used during the provision of cattle insurance for single cattle owners to shield against risks such as epidemics, loss of livestock, and low prices.
- App-enabled end-to-end digital onboarding and policy issuance can be beneficial in term insurance for a holder

- of unsecured personal loans or micro loans.
- Intelligent Optical Character Recognition (IOCR) and doc archival can be used for document verification.
- Robotic Process Automation (RPA) and Straight Through Processing (STP) can be deployed to issue DMI policies efficiently and swiftly to customers.

Conclusion

Before executing a digital rollout, a well-planned adoption of the best-suited sales model for micro insurance products is needed. Micro insurance distribution models include digital or low-touch distribution, agent or high-touch distribution, and hybrid distribution models. In order to successfully deliver and scale up digital operations, DMI products need to be intelligently designed, efficiently distributed, and diligently

regulated. Further, digital operations will need to ensure the financial viability of DMI to insurers, MNOs, and TSPs while concurrently providing the highest value to customers.

Micro insurance programs supported by technological advancements are on a healthy growth trajectory. However, the integration of customer needs, demand and supply-side solutions, and viable profit

margins with technological platforms and tools is the need of the hour. Balancing the cost of technology and its short-term and long-term benefits with the goal of enhancing value for clients is the way forward in ensuring that DMI products meet the unmet insurance needs of low-income populations in a sustainable manner.

* For organizations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed on organizational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like a living organism, will be imperative for business excellence going forward. A comprehensive, yet modular suite of services is doing exactly that. Equipping organizations with intuitive decision-making automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, Live Enterprise is building connected organizations that are innovating collaboratively for the future.

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