Finding New Insurance Ideas in Unlikely Places

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By Mark Foster-Collier and Puneet Singh

Western insurance firms have a problem. Their markets aren't growing, product innovation has stagnated, and costs are rising while customer satisfaction is falling. In short, it's a business that's ripe for the kind of change that radically transformed industries like media, telecommunications, and high tech.

For inspiration, Western insurers should broaden their scope by scanning countries in the developing world, where insurers are thriving. That fact is not as strange as it may seem. With fewer available resources, and impediments ranging from physical to cultural, insurers in those regions have had no choice but to innovate—and innovation is a key to success that knows no geographic boundaries.

While insurers in developed markets have been fixated on risk management, neglecting consumer-facing sources of value, insurers in developing regions have turned a laser-like focus on the customer. By harnessing popular technology, embracing unique sales partnerships, and creating customized products, insurers in the developing world offer a glimpse of the kind of creative thinking that has the potential to jump start the industry in the West. That makes what's happening in places like Kenya, India, and Colombia important for Western insurers to understand.

Key Emerging Market Innovations

Emerging markets present insurers with significant challenges and constraints. There may not be a developed infrastructure to reach a critical mass of consumers, and purchasing power can be low, with traditional payment options few or non-existent. Environmental factors from drought to flooding to population density may also present impediments.

In adverse situations like these, insurers in emerging markets have had to think differently about product development, sales, and claims processing. While insurers in developed countries don't face the exact same set of issues, they can draw inspiration from emerging-market innovations.

Product Development Innovation: Most Western insurance products are designed to serve the needs of a majority of potential buyers, which is to say they may not match every individual customer's precise needs. A "good enough" product will typically offer 80 percent of the performance of an insurer's "best" product at 80 percent of the best product's price, making it attractive to a large number of consumers.

In contrast, the focus in developing countries is micro-insurance products. These hyper-targeted offerings are created to meet precise customer needs while reflecting the realities of poorer populations and their limited purchasing power. A micro-insurance product might offer 50 percent of the coverage of a "best" product at 15 percent of the price.

For example, instead of offering across-the-board crop insurance, a micro-insurance provider might only cover a specific loss caused by a specific event. In Kenya and Rwanda, Kilimo Salama offers a low-cost policy covering the cost of a farmer's crop investment—seeds, fertilizer, and pesticides—in the event of a loss due to extreme drought or excessive rain.

By limiting the coverage to the customer's up-front expenses, and by excluding hazards like pests, hail, and certain types of floods, the cost of insurance is kept ultra low. As of 2012, around 50,000 Kenyan farmers were covered, and payouts have been made to over 10,000 farmers, according to Swiss Re, one of the partners in the offering.

India's Vimo provides a micro-insurance product for low-wage, self-employed women. Offered through SEWA, a workers' trade union, the insurance costs the equivalent of $1 per month and provides $200 of protection against life, home, health, and accidents. In South Africa, micro-product provider Hollard insures funeral expenses up to $250 for individuals and families. It sells the product for $2 in packaging similar to cell phone starter packs.

Transaction Partnering Innovation: Poverty, the lack of infrastructure, and the geographical remoteness of many regions in emerging countries significantly inhibit insurers from reaching and managing customers using methods that are common in the West. But by applying creative thinking, insurers have found ways to connect.

In Africa, Kilimo Salama does all of its business through agro-dealers and the mobility service provider Safaricom. When an agro-dealer sells the customer seeds, fertilizer, and chemicals, the cost of these "crop inputs" can be insured on the spot for a small incremental price. Scanning a barcode on the bill registers the policy with the insurer and generates a text message to the customer with the purchase receipt and policy number.

In Colombia, Liberty Mutual solved the challenge of collecting premiums for its low-cost health insurance by partnering with the local gas company, which adds the charges to the client's natural gas bill. In Bolivia, Zurich Bolivia Group sells medical and life micro-insurance products at branches of BancoSol, a commercial bank targeting low-income customers. The cost is automatically deducted from the customer's savings account.

Filipino insurer Beneficial Life Insurance, known as BenLife, partners with telecom giant Smart Communication to offer a mobile micro-insurance service called InsureTxt, which offers accidental death coverage of up to PHP 50,000 ($1,200) for as low as PHP 3 ($0.07) per month, with all transactions completed through text messaging. South African provider Hollard's funeral insurance is sold through Pep, a clothing and small appliance retailer.

Claim Processing Innovation: In developed countries, claims are filed online or by mail using a forms-based process. Once a claim is approved, a check is sent or deposited in the customer's bank account. Given the lack of infrastructure in developing countries, insurers have to take a different approach, often by enabling customers to benefit from index-based claims that are automatically triggered by defined events.

For example, Africa's Kilimo Salama uses automated weather stations to calculate whether it owes customers payments on their crop insurance. If so, it transfers the funds to the customer's mobile phone number via M-PESA, a mobile payments service.

Look for coverage gaps in your market—gaps that can be filled with niche products to appeal to those who don't have insurance or those who can be upsold with a value-added extension to a current policy.

Providers in other countries use indexing to determine claims for weather-related events. In India, HDFC ERGO offers a Rainfall Index Policy to farm communities against the potential for drought. The claim settlement is based on a rainfall index collected weekly from an India Meteorological Department station. Claims are settled through an automated process.

In the Philippines, two micro-insurance providers also offer index-based weather coverage. Microensure provides crop insurance to rice farmers against droughts and typhoons. By limiting coverage to the cost of cultivation, premiums are kept to between five and 10 percent of the insured value, depending on the weather station and crop variety.

Swiss Re insures farmers against crop damage caused by typhoon-related high winds. Damage is assessed remotely based on the recorded typhoon speed and the distance between the farm and the typhoon track. The policy covers the 120-day period of the crop's establishment, flower, and yield formation stages.

Also in the Philippines, Coop Life Insurance and Mutual Benefit Services, or CLIMBS, covers the loan portfolios held by cooperatives and microfinance institutions. Its weather index insurance pays out to client organizations when wind speeds or rainfall in their areas breach predefined levels for their respective regions. CLIMBS' premium rate is 3.5 percent of the covered loan portfolio.

The Three Levers of Growth

To create and serve new markets, insurers in developing regions have innovatively overcome infrastructure, environmental, and societal challenges. While Western insurers don't face the same obstacles, they can profit from insights gleaned from the developing world—insights that can be described as three levers of growth:

- **Identify unique customer needs.** Insurers in developing countries have focused on micro-insurance. Translating this to the West means looking for coverage gaps in your market—gaps that can be filled with niche products to appeal to those who don't have insurance or those who can be upsold with a value-added extension to a current policy.

- **Identify potential partners for bundled sales.** Insurers in the developing world have forged agreements to capitalize on customer relationships already established by other businesses. As you assess new niche products and services for your markets, ask yourself what types of businesses can help you market and close agreements through bundled-sale arrangements.

- **Capitalize on consumer mega trends to simplify claims and disbursements.** Insurers in developing countries have tapped trends like mobility to break down barriers in servicing customers. As an insurer in the West, you need to regularly and rigorously examine the potential of all new technologies and trends—and the ways consumers are affected by them—to improve the customer experience and grow your revenue base.

Some Western insurance providers already are deploying these levers. For example, a U.S. auto insurance company provides a smartphone mobile app for customers to photograph their damaged vehicle and file a claim on the spot. In addition to increasing customer convenience, the app saves the provider money by reducing fraud and the need for loss-adjuster assessments.

In France, an insurance provider acknowledged its market's aging demographic by creating a policy specifically aimed at older individuals. By offering extended coverage for items such as prescriptions, dental work, and hearing aids, it motivates seniors to take preventative actions and engage in physical activity. The product has captured a growing category of customers who were previously uninsured or under-insured.

The Insurance Innovator at Work

It's all well and good to talk about innovation in other cultures, but how do you translate these ideas into an established way of doing business in the West?

The first step is to accept that change is an imperative if you want to reach new markets and refine products to meet your customers' changing needs. There's no ignoring low customer satisfaction anymore. Then you have to break away from old ways of doing business:

Structuring your innovation and embedding it into a process may sound contradictory at first. But innovation must be entrenched in your organization or it won't be fast enough to grab market opportunities.

- **Appoint a Chief Innovation Officer.** It's critical that the position is supported by closely linking it to existing product development and distribution mechanisms.
- **Broaden your perspective.** Stop thinking narrowly in terms of silos, and identify opportunities across all business functions.
- **Scout for trends and breakthroughs.** Scour the market daily for signs of change in consumer behavior and technology advances to identify market gaps and potential ways to fill those gaps.
- **Embed innovation in your organization.** Prioritize the best ideas, then bring them to market to test and refine. Keep new ideas flowing and repeat the process again and again.

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The scope of change that is required is not simple and will take time to accomplish. But time is of the essence. The stagnation of the Insurance industry in the developed world makes it ripe for transformation—a change that either will be driven by forward-thinking legacy providers who prepare for it and act, or by upstart providers who see the opportunity and have the agility to jump on it.

The three levers of growth gleaned from innovative insurance product development, sales, and claims processing in developing countries point the way to the coming transformation in the West. You will want to be at the forefront of that change, not watching from the sidelines.

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