

Microinsurance in Asia: Supply-side perspectives

Bangladesh Country Analysis

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Based on findings from the Milliman research report:
Asia Microinsurance Supply-side Study

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With growing interest in microinsurance in the region, we are pleased to present our first Microinsurance Supplside 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 regulated insurers providing microinsurance in five countries, namely Bangladesh, China, India, Indonesia, and the Philippines. This country analysis highlights some key-takeaways based on observations from Bangladesh.

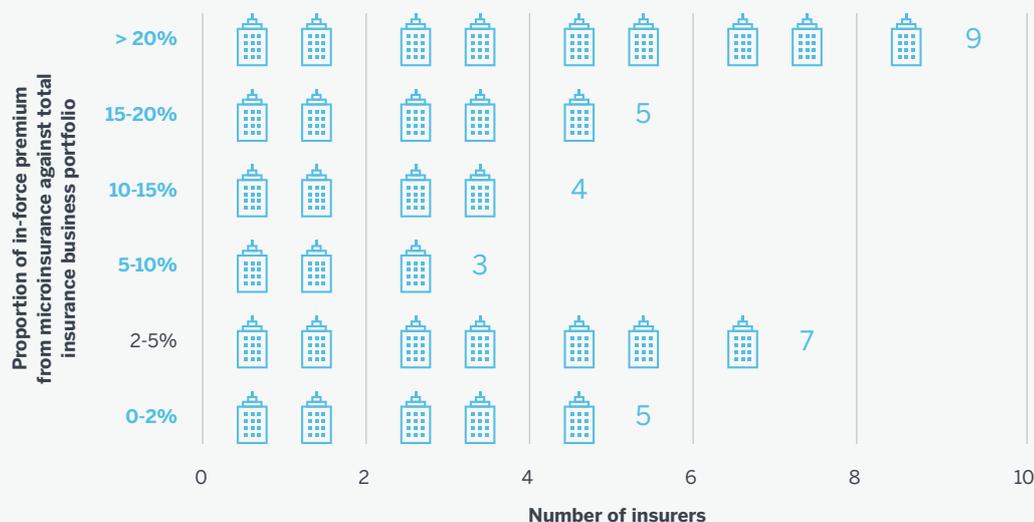
Forty insurers participated in the survey, of which 82% (thirty-three insurers) currently sold microinsurance in the Bangladesh insurance market. Eight of the top 10 providers by total insurance market share in Bangladesh participated in the study.

The following is a summary of the criteria used to define “microinsurance” in this study:

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

Current practices: Taking a closer look at insurers' microinsurance programs and how they implement them

How surveyed insurers and providers reported the proportion of in-force premium from microinsurance against their total insurance business portfolio



In Bangladesh, the proportion of microinsurance in-force premiums was distributed over a wide range. Whilst the median of the respondents sold 10-15% of microinsurance premiums as a proportion of total premiums, more than 1/3 of respondents sold more than 20%. For the majority of these respondents, microinsurance is associated with life insurance distributed in rural areas. Whilst microinsurance makes up a substantial part of the portfolio for some insurers, microinsurance coverage remains low.

Types of microinsurance products insurers currently or plan to offer

■ Currently offer ■ Plan to offer



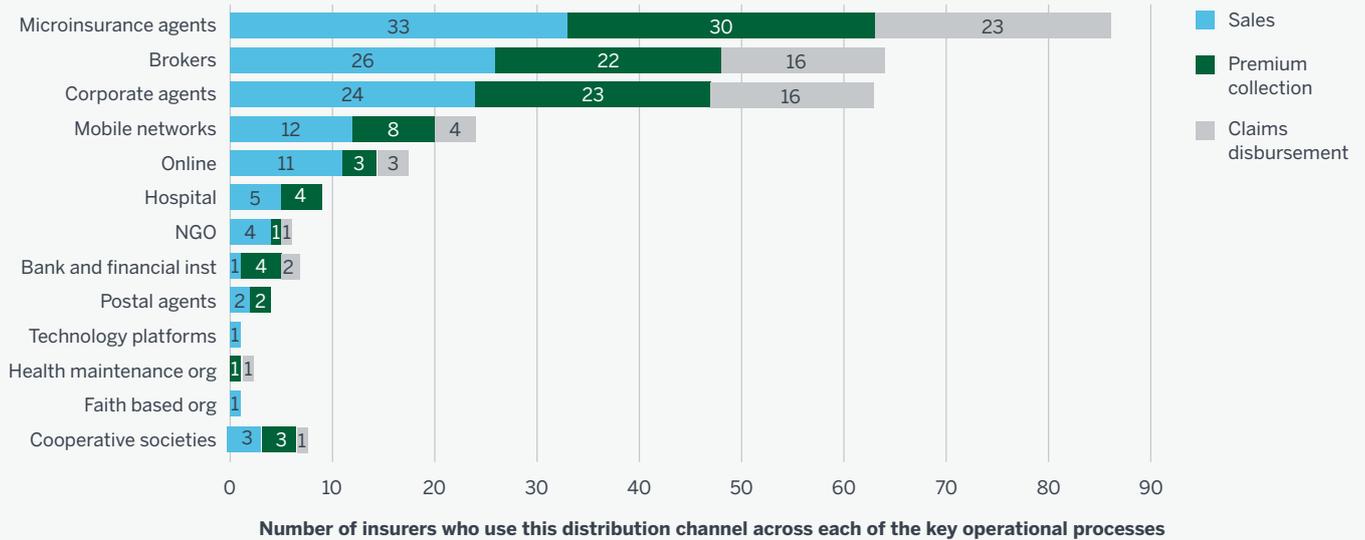
1/33 Proportion of insurers who develop products specifically to address climate risks of low-income people

The most prevalent types of microinsurance products insurers currently and plan to offer are life insurance cover with savings, personal accident and term life with return of premium.

Term life products offered with a savings component is the top product observed in Bangladesh. When bundled with other financial instruments, perceived value of the insurance package increases, making sales more straightforward. Similarly, term life with return of premium (i.e. endowment) is observed 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. Like other markets, personal accident products also hold a strong position in the market due to their low premium level. It should be noted that credit life insurance is managed directly by microfinance institutions (MFIs) with no regulated insurer involved in Bangladesh, and thus these were not included in the study.

Microinsurance products specifically developed to address climate risks are still in their infancy. From our research, countries which are more prone to climate disasters do not necessarily offer solutions which address these risks. Bangladesh is a case in point where only one of the 33 insurers surveyed provides insurance coverage targeting climate risks.

The distribution channels insurers used for sales, premium collection, and claims payment



Agents and brokers are the top distribution channels in Bangladesh, followed by mobile network operators (MNOs).

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 but limited by reach and scale. Agent-driven models tend to be more expensive compared to other distribution channels. Nevertheless, selling microinsurance through their own agents has the benefit of better persistency that comes with face-to-face contact, thus cultivating trust. Corporate agents are also used to sell microinsurance, but it can easily become a second-tier product with lower absolute commission levels compared to conventional products.

In Bangladesh, another notable distribution channel is via MNOs. Microinsurance has been offered by mobile networks Robi Axiata and Grameenphone. Whilst such MNO freemium models continue to exist, their sustainability is questionable given low renewal rates¹. Furthermore, it is debatable whether offering “free” insurance is necessary in driving sales of paid products.

* In the above graph, 'corporate agents' include registered companies such as cooperatives, associations, and non-governmental organizations.

** In the above graph, channels not selected for any process by participants include microfinance banks, trade organizations, retailers, affinity groups, mutual benefit associations, funeral funds, pawn shops, and travel agencies.

How insurers are applying technology in their microinsurance processes



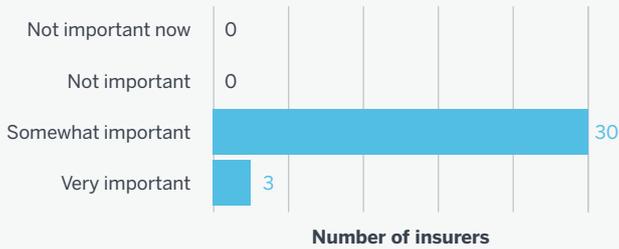
The use of technology is on the rise in Bangladesh, where most of the respondents have stated that they use their own specialized software for policy management, customer service, claims payment and premium collection. For example, GLIL has introduced MyGuardian Web Portal to help process claims. At the same time, physical forms are equally adopted in popularity. This indicates that while processes are becoming digitalised, certain parts of the value chain remain reliant on paper forms.

In 2011, the Bangladesh Bank had issued guidelines for Mobile Financial Services (“MFS”) to improve access to financial services to the unbanked. The guidelines permitted the use of MFS to make a wide range of transactions, including insurance premium payments to insurance companies. Since then, there has been significant growth in mobile money accounts, the second highest amongst the countries we surveyed. For any insurers working in Bangladesh, the adoption of mobile technology is becoming essential more than ever.

1. Discussion with MicroEnsure CEO and practitioners working within this distribution model.

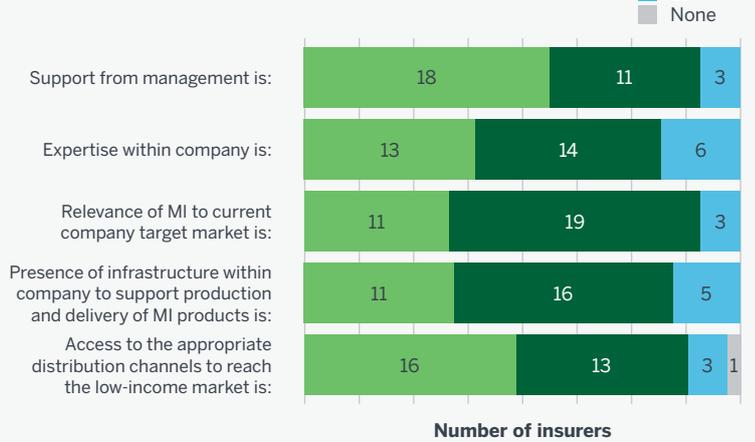
Perspectives: Insurers' observations on their institutions and the microinsurance market

How insurers rank the importance of selling microinsurance within their companies



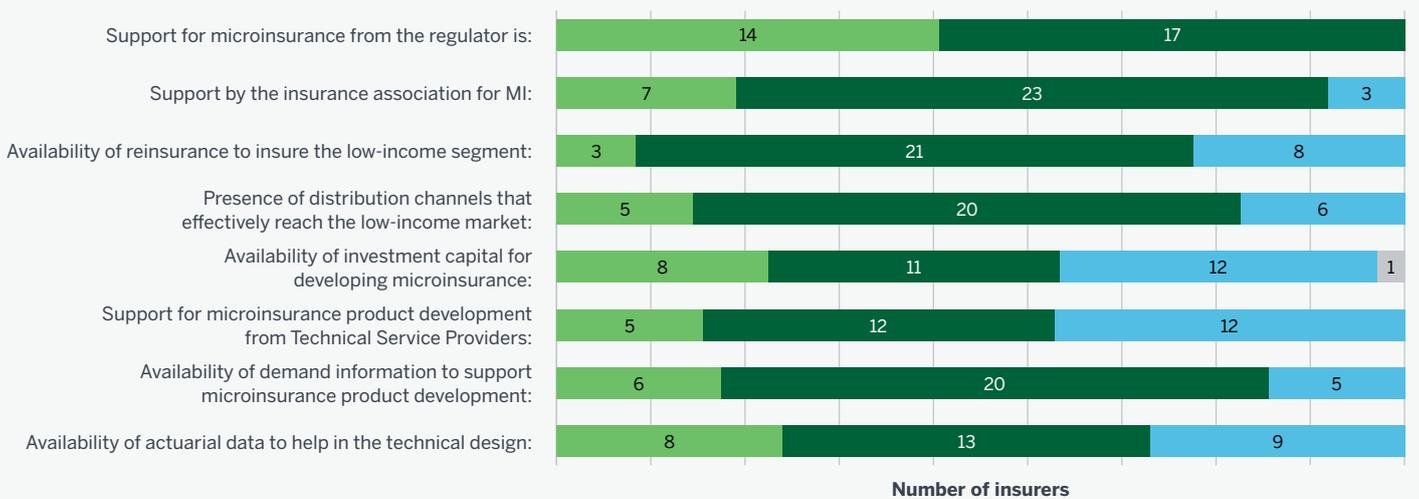
The majority of Bangladesh respondents considered microinsurance to be somewhat important, yet the coverage of microinsurance remains low. In the recent 15th International Conference on Inclusive Insurance in Dhaka in 2019, the Prime Minister of Bangladesh, Sheikh Hasina, confirmed the significance of microinsurance to the government, noting that "if geared to tackle the situations arising out of climatic hazards, it [microinsurance] will go a long way to address the needs of the millions living mainly at the lower rung of the society".² In addition, Senior Secretary from the Ministry of Finance Md. Ashadul Islam commented that "the concept of microinsurance is yet to be familiar with the people in Bangladesh".³ 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. Given the commitment from government officials and high significance observed amongst insurers, there is great hope for further development of microinsurance in Bangladesh.

The opportunities and challenges insurers face regarding microinsurance within their companies



The majority of insurers ranked most internal supporting environment drivers as medium to high. Most respondents that do offer microinsurance also stated that the access to appropriate distribution channels to reach the low-income market is medium to high. However, there are also slight concerns on the effectiveness of these distribution channels. This may indicate that outside the traditional microfinance institution (MFI) channels in Bangladesh, the distribution channels that most insurers rely on are agents and brokers, which would have limited reach amongst the low-income segment particularly in more rural areas. *Note: as credit-life insurance is managed directly by the MFIs with no regulated insurer involved, they were not included in the study.*

Insurers' views on the supporting environment for microinsurance in Bangladesh



In Bangladesh, the different aspects across the external supporting environment for microinsurance are on average ranked as medium levels of support. The factors with relatively lower support are the availability of investment capital and support from technical service providers (TSPs). For survey respondents that do not currently offer microinsurance, the top reason which deterred them from doing so related to micro-clients not being their target market. In addition, some non-microinsurance provider respondents felt that the regulatory environment in Bangladesh was unfavourable, though this did not appear to be a core concern for insurers already offering microinsurance. 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.⁴ It is clear that the support for microinsurance from the regulator plays a very important role in providing a facilitative environment for microinsurance.

2. Coping with Climate Risk, 15th International Conference on Inclusive insurance, sourced from BIA (Bangladesh Insurance Association)
 3. Same as reference 2 above
 4. https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2019/10/EIU_Microscope_2019.pdf

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