

# LEVERAGING LESSONS IN MICROINSURANCE

## TOWARDS A CULTURE OF LEARNING: THE VALUE OF DIFFICULT AND FAILED EXPERIMENTS

In 2005 the Microinsurance Network published a paper titled “Lessons learnt the hard way”, which showcased some unique tales of challenges and mistakes in microinsurance, and told how they were overcome. These stories were meant to help market participants move a little faster up the microinsurance learning curve – both for their own benefit and the sector as a whole.

Today, six years later, many of the same lessons are still being learnt the hard way. One could argue that learning from difficulties is normal for a young and dynamic industry where many pioneers innovate, experiment, and push the frontiers of new markets. But what raises intriguing questions is how many mistakes are being repeated.

Why, for example, are new products still being introduced before there is an understanding of whether the market wants them? Why do microinsurance programs repeatedly run into difficulties with product complexity, leading so often to limited uptake? How can we ensure that what one program learns can be shared across the industry? Can microinsurance learn from other sectors, for example civil aviation, where industry-wide learning from near-misses and crashes has a long and successful tradition?

*“Those who make no mistakes are making the biggest mistakes of all – they are attempting nothing new.”*

Anthony de Mello

*“Experience is the name everyone gives to their mistakes.”*

Oscar Wilde

As a nascent industry, microinsurance can acknowledge and indeed celebrate its innovative nature. Its difficulties should not be seen as aberrations, but as natural by-products of innovation and experimentation. However much unnecessary pain and cost can be avoided if we captured the value of microinsurance experiments fully, especially those that encounter serious challenges. Having these lessons recorded, spread and implemented is critical to the evolution of the industry. It can speed up success in the market, at lower costs.

### RECURRING CHALLENGES IN MICROINSURANCE

Many difficulties in microinsurance are related to the industry’s peculiarities. Programs unaware of these peculiarities and unaware of the challenges and solutions that have already been found, risk stumbling into a costly and time-consuming process of trial and error. Here are some recurring themes:

***Microinsurance is different from traditional insurance. Simplicity is key***

Microinsurance addresses the lowest end of the insurance market. Clients in this market are exposed to different risks, such as more hazardous

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working or living conditions, and they typically have little experience using formal insurance as a means to mitigate financial losses. Complications result when their needs are not understood. For example, first-time microinsurers commonly make the mistake of issuing complicated policies and applying the exclusions of traditional insurance, even though these may be inappropriate and ineffective.

Ineffective exclusions have few benefits, if any, for insurance risk control, but they create difficulties and costs in the areas of sales, servicing, and claims processing. Of course one has to weigh the cost of eliminating exclusions against the costs and benefits of retaining them. Insurers should at least assess the benefits and drawbacks when they adapt their controls to microinsurance. It might make sense to have extensive controls for a USD one million sum assured life insurance policy, but for a USD 1,000 policy bought by people making USD 2 per day, such exclusions are hardly likely to be efficient.

In the same way, products need to respond to demand, and they must be simple in every way. Marketing must be transparent and aim to build trust. Simple products free of any ballast are easier to sell, easier to manage, and easier to yield value for both policyholder and insurer.

### ***Building market awareness is essential***

One has to bear in mind that many clients in target markets may have never even heard of insurance, or have heard about historic difficulties in getting claims paid. Therefore expecting them to embrace microinsurance products spontaneously will probably lead to unnecessary disappointment. Understanding demand in a market that has had little exposure to insurance is not straightforward. Awareness takes time to build and may require more resources than an individual programme might be willing to offer. Market acceptance also depends upon culture and history. In ex-Soviet regions, for example, awareness campaigns have to deal with negative past experiences with insurance. In Islamic countries, Takaful products have emerged to respond to religious requirements. Channels and contents must be adapted to the communication media used by low-income target audiences, which may include television, radio



spots, theatre, songs, or comic books. Images and metaphors work better than jargon: “Insurance is like an umbrella” is understood better than “Insurance is a risk-pooling arrangement...”. Building client awareness is both necessary and costly, but it is a necessary investment to produce sales. A variety of strategies for understanding demand have been tested.

### ***Efficient and motivated delivery channels are hard to find***

Most microinsurance policies are underwritten by an insurer and sold by delivery partners such as MFIs, employers, NGOs, retailers of farm inputs, charitable organisations, and numerous others. For the insurer, such a partnership may provide access to clients, but it does not guarantee sales. MFIs and others struggle to justify the time needed to sell policies, even though they themselves might reap secondary benefits such as lower credit risk from healthier clients. Benefits to all parties must be clear, and it is best to focus on synergistic products.

### ***Microinsurance needs highly efficient processes and IT***

Because of its high volumes and low margins, microinsurance has to be very efficient. Dealing with large numbers of clients and low premiums, settling claims fast while still controlling fraud, selling policies through partnerships – these require business processes that are much more cost-efficient than those of traditional insurance. Distribution partnerships present a particular challenge, as data of sufficient quality has to be transferred to the insurer swiftly, both for the administration of clients as well as for capturing performance indicators and extracting actuarial data.

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Paper processes are prevalent, but they are rarely a sustainable solution. Efficient microinsurance business processes need flexible IT systems. Efficient processes are the key to client satisfaction, efficient data management, and cost effectiveness. Introducing the right system, at the right time, in the right way, can make or break a microinsurance business. Microinsurers have to develop efficient processes for large transactional volumes, create and manage electronic links with delivery channels, and collect and use key performance indicators on their microinsurance operations.

None of these are new ideas or insights, so how is it that so many new microinsurance projects don't take them into account? Whatever the reasons, re-learning lessons the hard way is a waste of time and money, which may in the end give microinsurance a bad reputation. Maybe the issue is not just a lack of using the information that is out there, but of better dissemination methods needed to make the information efficiently available.



### THE DIFFICULTY OF LEARNING FROM DIFFICULTIES

Successes are visible, they are available to be copied, and they give rise to further innovation. Challenges are different. Few people are comfortable with telling stories of their mistakes and difficulties. Few organisations have structures and incentives in place to share such lessons internally, much less across their industry.

In business, science and everyday life, we observe a publication bias towards positive results. We read accounts of successful ventures, presented with the benefit of hindsight. Sometimes, even poorly performing institutions are promoted as successes despite the reality, so that we can no longer tell what is marketing and what is a real lesson. The resulting problem is twofold. On the one hand, stories about outright failure and significant challenges remain largely untold. On the other, we learn little about the difficulties encountered by ventures that struggled for a long time and went well only in the end – and, perhaps more crucially, how their difficulties were overcome.

The microinsurance sector is no exception to these trends. In addition, it is a field of business in which a diversity of market participants competes for scarce skills, donor funding, delivery channels and, in some cases, for clients. Some rightly consider their hard won experiences to be competitive advantages, and are therefore hesitant to share them. On the other hand the microinsurance sector has its own small but well-connected community of practitioners, donors, and experts, many of whom share a common vision of profitably bringing insurance to the poor. Donors are involved in many microinsurance activities; they have explicit strategies for learning and have the leverage to help it happen, as we see with the ILO's Microinsurance Innovation Facility.

*“If change proceeds with no failures, the speed of change is probably too slow.”*

Thomas Vollmann

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## TOWARDS A CULTURE OF SHARING LESSONS LEARNT THE HARD WAY

Industries such as civil aviation and science are hyper-aware of lessons and the need to share them. Of course there are vast differences between civil aviation and microinsurance, but even so, there is much to emulate in the aviation industry's culture of analysing and learning from things that did not go according to plan. Likewise, despite science being highly competitive, it has a culture of systematic learning and teaching, rigorous and evidence-focused debate, and a tradition of transparent publishing. Microinsurers can benefit from learning how these fields transform local experience into global knowledge. We propose the following steps towards a culture of learning from challenges:

### *Look for lessons learnt the hard way (as well as those learnt in easier ways)*

New microinsurance ventures should carry out thorough industry research to find out who might have tried similar things before them. We have a responsibility towards clients, staff, and the industry in general, to avoid making the mistakes that others have already made, so that we can start from the highest reachable rung on the lessons ladder. Finding such insights demands more than internet searches. Contacting experts directly via conferences or their websites or the Microinsurance Network can be valuable, as many practitioners are willing to share experiences directly with their peers. Websites offering case studies, reports and handbooks include the ILO Facility, the Microinsurance Network, and the MicroInsurance Centre.

### *Share lessons learnt the hard way*

Microinsurers are reluctant to share proprietary information, especially if they feel it is to their competitive advantage. They are hesitant to invest time in collecting and analyzing information, because their primary role, as they see it, is selling microinsurance. Reaching large audiences requires documenting of experiences, much of which resides primarily in people's heads. Such knowledge should be considered a public good, and there a role for donor-funded initiatives to bring these experiences into the public domain.

But in order to learn effectively, different users of such information need different formats. More of all kinds of lessons are needed: case studies, cross-cutting syntheses, actuarial data, action research, academic research with a practical twist, as well as handbooks and textbooks.

### *Make use of centers of funding and knowledge*

Regulators, industry bodies, and donors have important roles to play in systematic learning. Donors have the leverage to check that grantees acquire expertise before embarking on programs. They are also in a position to get industry experiences documented, analysed, and published, in forms suitable for sharing with their grantees and with the wider industry. Regulators can push for segregation of data, which would be a huge step towards making the business case for microinsurance. Industry associations, as shown by FASECOLDA in Colombia, can provide significant value to members wanting to improve their microinsurance operations.

Learning from challenges and difficulties needs platforms where those who struggled can share their experience with those who are glad they do not have to, or at least not to the same extent. Existing communication channels, such as newsletters, blogs and websites, can be used for this. But ideally lessons learnt the hard way deserve to be put on the agendas of working groups and conferences. "Bad practices and flopped experiments" may be going too far, but packaging lessons as "Challenges encountered, challenges overcome" would certainly captivate audiences.

Let us learn from the aviation industry how learning from challenges and failures make for greater safety. An analogous culture is essential to the healthy expansion of microinsurance. ■

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This paper was prepared by Oliver Zenklusen, Michael J. McCord, and Roland Steinmann as a means of prompting further discussion about increasing the pace of evolution in microinsurance.

For more information contact Michael J. McCord at [mjmccord@microinsurancecentre.org](mailto:mjmccord@microinsurancecentre.org) and visit the web site at [www.microinsurancecentre.org](http://www.microinsurancecentre.org).