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Uncertainty Regarding the Term Microinsurance

The term "microinsurance" has multiple meanings. It is important for the Innovation and Technology (EX) Task Force to agree upon what the term means before embarking on a study or appointing a working group. The purpose of this paper is to discuss the various meanings and inform the Task Force so it is clear what is meant when, and if, further study is considered.

The term "microinsurance" has traditionally referred to insurance protecting the health and livelihoods of underserved low-income populations in emerging markets and developing countries. The International Association of Insurance Supervisors (IAIS) has defined microinsurance as "the protection of low-income people against specific perils in exchange for regular premium payments appropriate to the likelihood and cost of the risk involved." In another paper, the IAIS defines microinsurance as, "insurance that is accessed by low-income populations, provided by a variety of different entities, but run in accordance with generally accepted practices (which include the Insurance Core Principles)[1]". It is viewed by the IAIS as a subset of what they call "inclusive insurance." "Inclusive insurance" is defined as "…all insurance products aimed at the excluded or underserved market, rather than just those aimed at the poor or a narrow conception of the low-income market.[2]"

An example of a traditional microinsurance product is one offered in India. In India, microinsurance is believed to be part of a three-legged stool which includes credit and savings. It is intended to lift people from poverty. The Self-Employed Women's Association (SEWA) is a union that also runs a Bank making micro-loans. The SEWA microinsurance product offers a package of coverages including natural death ($5,000), health ($2,000), asset loss ($10,000) and Accidental death ($40,000) for $100 annual premium.[3]

Other microinsurance products include those with very low premiums where the end product is the delivery of food rather than monetary benefits.

Another area labeled microinsurance is covered by the Microinsurance Network. Information on the network is available at (www.microinsurancenetwork.org) Its focus is on use of microinsurance to contribute to mitigating the impact of climate change. They mention pilot programs in Bangladesh, India, Burundi, Kenya, Mali, Senegal and Central America.

The term "microinsurance" has recently been used more broadly to refer to an insurance solution in any low-growth market or market with limited penetration. These could be property and casualty, life or health products within mature economies.

These modern microinsurance products tend to have some common characteristics. Some of the elements frequently seen in microinsurance policies include:

- Simple product design
- Low cost
- High volume
- Short duration
- Group-based pricing
- Basic claims administration
- Parametric trigger
- Technology-driven distribution models

[1] IAIS, Issues Paper on the Conduct of Business in Inclusive Insurance, November 2015, page 5 of 55.
[2] Ibid, page 5 of 55.
[3] Vyas, Jayshree, SEWA, Experience in Providing Micro-Insurance Services to Poor Informal Sector Workers, 2006. See https://www.microfinancegateway.org/library/self-employed-womens-associations-sewa-experience-providing-microinsurance-services-poor.

- Cell-phone technologies used for policy application and issuance, premium payment, and claims reporting and payment.

These characteristics can make the policy acquisition and claims paying simpler and more efficient. Policies that have been labeled as microinsurance by the trade press include Lemonade for property insurance, Metromile for auto insurance, and Ostraa for health insurance. Markets with limited penetration rates are often targeted, such as renters insurance. The products may also seek to address markets where consumers experience a gap in coverage, such as a hurricane or earthquake policy that has a large percentage deductible that must be met.

As an example, Assured Risk Cover, a Silicon Valley startup has created a parametric hurricane policy. A homeowner purchases a policy with limits of $1,000 to $15,000. If a hurricane strikes within pre-established parameters and the policyholder experiences an economic loss, the limits are paid within 24-48 hours. This money can be used for temporary housing, debris removal, losses below a deductible, etc.

It is apparent that when one person says microinsurance, another person might hear something completely different than intended by the original speaker. Several of the microinsurance concepts discussed in this paper would be better addressed by the Market Conduct and Consumer Affairs (D) Committee, while the latter might be worthy of discussion by the Task Force. It is the recommendation from NAIC staff that we abandon the term “microinsurance” to describe the innovations using smart phone technology to conduct insurance transactions and instead call them on-demand insurance. This will avoid confusion and better focus the Task Force efforts.

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