



Insurance Design – Innovation for Building MSME
Metropolitan Hotel, Delhi
February 10, 2017
Workshop Summary

Introduction

The December 2015 floods in Chennai revealed poor insurance coverage among micro, small and medium enterprises (MSMEs). While there was significant demand for insurance products in the aftermath of the floods, in most cases, the insurance that was held by the MSMEs poorly covered their losses and did little to shorten recovery times. Insured firms received settlements that were far below what they had claimed, i.e. there was a huge mismatch between what firms expected to receive under their policies and the amount insurance providers approved. Explanations for these shortfalls from the perspective of insured firms are available in our study, [“Transforming Chennai: building micro, small and medium enterprise resilience to water related environmental change”](#). In addition, many small businesses were and still are unable to access or afford formal financial or insurance products, and remain completely uninsured.

Having mapped some of the concerns, constraints and preferences on the demand side of the MSME market, Okapi and Mercy Corps convened a workshop to determine supply-side explanations for the market gap described above. The workshop, “Insurance Design–Innovation for Building MSME Resilience” brought together policymakers, insurance providers, and potential customers to jointly consider product innovations, supply-side collaborations and necessary market conditions that would create a functioning insurance market for both MSMEs and the companies who insure them. Participants contributed by providing expertise on the nature of the MSME sector and Indian insurance market; product design considerations; and potential distribution channels.

The following sections capture the major points discussed in the workshop. To encourage open and candid discourse, we held the discussions under Chatham House Rule: none of the information below is attributed to a participant directly.

Market Landscape

The MSME sector is diverse in terms of size, financial access and industry profile. It is overwhelmingly informal, which means that many firms are unregulated and do not possess documents required to apply for formal loans or insurance. As many as 46.5 million MSMEs are financially excluded in India. Most MSMEs deem comprehensive insurance unaffordable.

Direct insurance – purchased from an insurance provider without a financial intermediary or loan-based requirement – is typically found among medium size enterprises. Indirect insurance is availed by firms who have access to formal financial institutions, i.e. 7% of the entire MSME sector. Indirect insurance covers only the loan amount, and only for the duration of the loan



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period. The majority of the sector is thus, uninsured, and a significant part of insured MSMEs are underinsured. Directly insured, indirectly insured and uninsured firms require separate market strategies.

From the perspective of insurance companies, distribution, outreach and product design are the largest hurdles, the details of which are discussed in the following sections. Insurance companies who wish to enter the market also face regulatory barriers and a lack of proof of concept to commend MSMEs as a lucrative, sustainable and scalable market segment.

Product Design

There was consensus on the need to develop simple, affordable and comprehensive products. This involves minimising exclusions, and simplifying enrollment and claims' processes. Such modifications are win-win: exclusions lead to more complex claims processes, and complex processes are time-consuming and costly for both the provider and the client.

Discussants recommended the need to develop simple and effective incentives to garner participation from policyholders. Some examples included tax incentives/deductions and restructured payments or credit systems based on pro-resilient behaviour.

Finally, the use of technology, particularly through smartphone apps, seems to have a lot of potential to simplify procedures for both claimants and insurance companies. There is evidence of a high digital presence in the sector, including in informal establishments. By using an app, for example, rather than wait for a surveyor, a claimant could upload a picture of damaged equipment or stock, and process a claim faster. Still, it is important to remember that even in extremely advanced insurance markets, users often prefer human interaction. Insurers also rely on human interaction to build trust among their customers. Technological innovation will thus never fully nullify the need to focus energies on training and equipping the insurance salesforce, and engaging directly with the target market to build a trusted relationship.

Distribution and outreach

Insurance providers need intermediaries or aggregator partners that can maximise portfolio scale and in turn, minimise per policy product costs. Market players require the potential for large numbers of sales to ensure the viability of the product line in the long-term, and the ability to cover upfront investments into product design.



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Some of the suggested distribution channels include industry associations, industrial estates, and financial institutions. However, the appropriateness and effectiveness of clustering firms in this way is still untested, likewise the willingness of the respective channels to play the role of distributor. This presents a significant knowledge gap, which deters insurance providers from entering the market.

There might be a need for several iterative interventions to help determine appropriate distribution channels and open the insurance market for MSMEs. Here too, similar to product design, based on the type of enterprise and prevailing insurance arrangements, technological innovations or a simple voucher/coupon system could be used to reach uninsured and underinsured firms in particular.

The data and knowledge gaps described here need to be addressed to catalyse insurance activity. Ward-wise enumeration and outreach activities run through the corporation might help generate some of this data, and enhance efforts to include informal MSME units.

Ownership

Innovations in designing products and identifying appropriate distribution strategies are processes that need industry champions to push them through. Participants cited this 'lack of ownership' as another deterrent to building a robust insurance market for MSMEs. The insurance market also needs owners and catalysts to drive regulation reform.

Several industry representatives believed that insurance companies would be willing to pursue the MSME market if they had a proof of concept. This would mean evidence through the results of a pilot, with key metrics including design features, product uptake, client feedback and responsiveness, costs and the potential for scalability. Insurance providers are willing to invest in R&D if they can recover costs through scale.

Information flows and shifts in perception

For many small business owners, purchasing insurance is not a natural consideration. The benefits of insurance become apparent in the event of a disaster or severe business disruption. Still, as seen in Uttarakhand and Kashmir, daily risks and constraints quickly eclipse hazard risks, especially since disasters are usually infrequent, making insurance for natural hazards difficult to sell. Even in developed markets, and even with consumers that understand the value of insurance, individuals or households will not buy insurance unless they have to by law or the need is very



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compelling. Building awareness and creating good information flows is thus key to the success of building a robust insurance market for MSME.

Conclusion

The potential of this market segment was recognised by all participants. Significant barriers remain in bridging the gap between supply and demand. However, the workshop began a healthy and open dialogue among various representative stakeholders about how these could be overcome in order to build a viable market for insurance products that adequately and effectively address the risks of MSMEs. Such a market has the potential to be a financially viable business line to providers, while achieving clear social outcomes in providing better resilience solutions for MSMEs.