

Risk-Based Supervision for Inclusive Digital Financial Services

TRANSCRIPT: Introduction to Inclusive Insurance

Inclusive insurance can be defined as an insurance solution designed for traditionally underserved and underinsured segments.

In general, a large portion of the uninsured population comprises low-income individuals. However, research has shown that factors other than income (such as education level, occupation, gender, minority status, migration status, and location) also influence an individual's access to insurance.

An inclusive approach aims to understand and solve the challenges of access and usage of insurance by underserved segments.

Insurance has the potential to build societal resilience. It can help relieve the burden of post-disaster recovery placed on governments and citizens.

Providing insurance to those previously underserved in the form of inclusive insurance is core to:

- building resilience both at the individual level and society level,
- being a risk management tool for individuals and sectors, and
- opening up opportunities.

For women, insurance can be especially empowering. It is a way for women to establish and maintain their own economic independence.

Insurance also contributes directly and indirectly to several Sustainable Development Goals, such as:

- no poverty,
- zero hunger,
- good health, and
- gender equality.

Principles for Inclusive Insurance

Inclusive insurance products and services need to follow certain principles. Let us look at four of these.

1. Simplicity and transparency

Firstly, inclusive insurance products and services should be simple and transparent. Products need to have clear terms and be written in simple language so that the benefits and risks are easily understood.

2. Affordability

Inclusive insurance products and services should also be affordable. Premiums should be low and paid in small, flexible instalments to allow alignment with the irregular income streams of the target clients.



3. Accessibility

Inclusive insurance should be accessible. Distribution channels need to be designed to reach clients where they are. These channels need to move beyond traditional broker networks to partner with mobile network operators, microfinance institutions, agricultural cooperatives, and local retailers.

4. Efficiency

Finally, inclusive insurance services should be efficient. The claims process should be designed to be fast, simple, and reliable. This is necessary to build trust and ensure that policyholders receive their payouts when they are most needed.

These principles are advocated by the International Association of Insurance Supervisors (IAIS), the Centre for Financial Inclusion (CFI), and the UNDP. Adhering to and applying these principles, enables inclusive insurance to transform risk management from a luxury for the few into a viable tool for the many. This will empower households and small businesses to build resilience and invest in their futures with greater confidence.

Inclusive Insurance and Climate Change

Inclusive insurance is particularly important in the context of climate change. Extreme events are occurring with greater intensity and increasing frequency around the world, often with compounding impacts.

Low-income communities and micro and small enterprises are particularly vulnerable to these events and frequently lack the resources to prepare for or recover from them. Strengthening resilience among these groups is essential to promote inclusive growth, advance equity, and support sustainable development.

Inclusive Insurance and Technology

Technology is the catalyst and the enabler of inclusive digital insurance. Technology can help insurance providers overcome the traditional barriers of cost and distance. And the recent wave of technological innovation is further unlocking the potential for scale and impact. Technology is fundamentally reshaping how insurance is designed, distributed, and serviced.

Technological innovation is making insurance more inclusive in several key ways:

- It offers opportunities for digitizing distribution and payments, which means that insurers can now offer products, manage policies, and communicate with clients through simple mobile interfaces. This includes using mobile money platforms for seamless collection of premiums and claims payments.
- Technology can streamline claims processes and operations. Automation and artificial intelligence make the claims process faster and more trustworthy. Chatbots can be used to provide customer support and answer questions at any time improving customer experience and redressal processes.
- Technology can ensure data-driven product design and pricing, which is important because data is key to inclusive insurance. In fact, CGAP has identified five ways in which data is being used in inclusive insurance:

1. Design new products

It is being used to tailor insurance products to individuals' needs or behaviors.

2. Inform pricing strategies

It is being used to inform pricing strategies and offer risk-based pricing.

3. Acquire and retain customers

It can be leveraged to acquire new customers and facilitate insurance distributions through collaboration with local organisations and online platforms.

4. Improve customer experience

It can be used to improve the customer experience, facilitate customer onboarding, and make quicker initial offers on insurance products.

5. Improve claims management and fraud detection

And, finally, thanks to data analytics and machine learning-based models, data can be used to enhance and automate fraud detection and improve claims management.

It is clear that inclusive insurance creates opportunities for insurers to tap new markets and diversify portfolio risk. To best access and serve these markets, providers are making use of technological innovations for product design, claims management, and data use. However, all these come with their own set of risks.

It is these risks that mean there is a strong need for regulators and supervisors, for both prudential and market conduct supervision, especially in emerging economies. Regulators and supervisors have a crucial role to play to balance the opportunities of inclusive insurance with consumer protection and financial stability.