



► Social Finance Brief

August 2022

Insurance for MSMEs in Mexico Five strategies from the region

Key points

- MSMEs are varied, and their needs and cash flows are changing. Therefore products with dynamic pricing or dynamic coverage are attractive.
- First loss coverage or delivery of partial claims payments are convenient for MSMEs. That is because they allow more accessible or quick response products.
- Pre-subscribed products are a useful solution for this segment.
- The value added to the products to help MSMEs grow is highly appreciated. This can be a differentiating factor.

Introduction

The ILO's Impact Insurance Facility, with the support of Prudential Foundation, is promoting inclusive and responsible insurance markets in Latin America and the Caribbean. In Mexico, the Facility has worked with the Mexican Association of Insurance Institutions (AMIS - *Asociación Mexicana de Instituciones de Seguros*) to build inclusive insurance markets for excluded persons and for micro, small and medium enterprises (MSMEs).

As part of this project, and with the support of Cirklo (an innovation consultancy) and the Microinsurance Network, AMIS and the Facility investigated barriers in insurance for MSMEs and put together a review of best practices in the region. In addition, a series of insurance design thinking workshops were held to develop solutions for this market segment. The results of this project are [summarized in a guide](#) to insurance solutions for MSMEs in Mexico.

A recent study, conducted as part of the Facility's work to build inclusive and responsible insurance markets in Latin America and the Caribbean, has identified keys to success in insuring MSMEs in the region.

The study found several barriers holding back insurance for MSMEs, including:

- A mistrust of insurance
- Limited knowledge of insurance among MSMEs
- Limited funds and variable cash flows that hinder the businesses' ability to afford insurance
- Perceptions of insurance processes as non-transparent, slow and complex
- Negative experiences with insurance products
- Poor communication with the client throughout the life cycle of the insurance product
- Limited flexibility in coverage and premium adjustment.

The project sought to identify strategies to overcome these barriers, based on an analysis of the experiences of seven companies with operations in Latin American countries: *INS* (Costa Rica), *MiCRO* (Colombia, El Salvador and Guatemala), *Pacífico Seguros* (Perú), *Provincia Seguros* (Argentina), *Seguros Bolívar* (Colombia), *Seguros Mundial* (Colombia) and *Suramericana* (Argentina and Colombia).

First-loss coverage with dynamic pricing is attractive and affordable for MSMEs

Multi-risk policies with dynamic pricing and first-loss coverage were the most attractive for small businesses and feasible for insurers. Dynamic pricing allows for the cost of a product to be determined based on a business' characteristics, risk variables and expected losses. This type of pricing better reflects the variety of MSMEs and makes the policy more affordable for small and low-risk businesses.

First-loss insurance is a property insurance policy that offers protection up to a set amount, which is less than the total value of the property. For example, a small business owner might insure their stock up to a certain value, on the assumption that it is unlikely that the whole stock is stolen at once. This type of policy can act as an initial, low-cost insurance offering for a population unfamiliar with insurance, and more complex coverage can then be offered at a later date. This type of product, with first-loss coverage, was offered by *Seguros Bolivar*. The insurance offered by this company is multi-risk coverage for small and medium-sized businesses, which includes property coverage, coverage against loss of earnings and coverage against damages to third parties. To allow customers to easily increase their coverage, it was important for the company to offer rapid processes for policy modification.

Pre-subscribed products facilitate simpler processes for insurers and MSME customers

Pre-subscribed products facilitate mass marketing, reduce operating times, and simplify processes. In pre-subscribed products, risks are assessed based on pre-established criteria related to the level of risk (such as the location of the company, its economic activity, the time that it has been operating, etc.), so that a full risk assessment is not required at the time the insurance is purchased. To achieve this, some companies in the region have developed digital platforms with information on the level of risk for factors like geographic location and type of activity, making it possible to automatically price the risk and reduce steps in the insurance sales process.

A good example is the MSMEs coverage offered by *Seguros Bolivar* in Colombia. The product offers a multi-risk cover through a pre-subscription model, with the premium automatically established based on the economic activity and geo-reference of the insured. There are options to choose the level of protection (full, medium, and basic), to facilitate lower-cost products.

MSMEs should be able to change, pause or reactivate their coverage as their business evolves

Developing flexible coverage is an important way to generate long-term relationships with MSMEs. Flexible payment schemes can allow for coverage to be paused and reactivated, instead of requiring MSMEs to pay for continuous service. In addition, potential MSME clients value that insurance can be adapted to changes in risk exposure that they experience and can be designed to cover operations or salaries during specific periods of time. The option to acquire greater coverage should also be made available without complicated clauses and processes. *Provincia Seguros* in Argentina, for example, offers the possibility to change its MSME coverage, allowing small business owners to quickly tailor the coverage they pay to their specific and changing needs. This "change of coverage" responds to changes in the financial statements and productivity of the MSME, so the change of coverage is made when necessary, but without putting too many bureaucratic or temporary obstacles to the entrepreneur.

Delivery of partial claims payments in minutes help businesses continue operations

Not all risks impact MSMEs in the same way. If the activity of the business is negatively affected, fast support is required from the insurer, especially given that the family and business finances are usually closely linked. In some cases, this can be done by paying an initial installment of the full claim payment, or by fast-tracking smaller claims. In Colombia, one company offers an all-risk insurance for MSMEs with a 20-minute hotline, in which, in only twenty minutes and without documents, claims are resolved. The hotline can be used for instances in which the client requires immediate support, usually related to claims that

are small but have an important impact on business operation.

MSME clients appreciate value-added services that support their businesses

The added value generated by an insurance product beyond the transfer of risk is a differentiating factor in the perception that small businesses have of insurance products. Assistance and additional services are an effective strategy to make insurance tangible. Assistance services, training, and support in gaining clients during the critical first three years of a business' operation are elements that were found to add important value to an insurance policy.

The *INS* of Costa Rica, for example, offers assistance and support to its insured MSMEs. Policyholders can exhibit their products at fairs that are organized and financed by the insurer. In the latest fair, "*Expo Grandes Ideas*", around 400 MSMEs exhibited their products for a month. In addition, in these fairs and in other spaces, training is offered on business management tools.

Insurance gaps in segments such as MSMEs must be addressed with approaches outside of traditional schemes and processes. The examples and successful practices presented here are proof of this. They can serve as guidelines for reaching this population, which represents an important market opportunity for insurers. The [good practice guide](#) that was developed contains several other guidelines and considerations for the development of new products, focusing on the preferences of these potential customers.



We would like to thank our partner, the Prudential Foundation, for supporting the release of this Brief.

The [Impact Insurance Facility](#) contributes to the agenda of Social Finance by collaborating with the insurance industry, governments and partners to realize the potential of insurance for social and economic development.

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