

## **PROJECT SUMMARY**

### **INSURTECH AS A TOOL FOR ECONOMIC RESILIENCE**

**(EC-L1259)**

Every year, millions of vulnerable people fall back into poverty due to out-of-pocket expenses resulting from the sudden loss of property or unexpected medical costs. This is for the most part preventable with insurance coverage, which can act as a protection mechanism and a safety net for low-income families. Latin America and the Caribbean (LAC), however, is still a region lacking inclusion in insurance. With less than 2.9% of penetration, measured as premiums to GDP, LAC lags behind the global average of 6.2% and far behind the OECD average of 8.7%. Within LAC, Ecuador has one of the lowest coverages with a penetration of only 1.6% of GDP. This is further compounded by the fact that 52% of its population is considered poor or vulnerable and 49% of workers are in the informal economy, most assumed without any insurance coverage.

Insurtech provides an opportunity for lowering the barriers for inclusion in the insurance market. The use of digital technologies, including market aggregation platforms, big data and artificial intelligence, are gradually disrupting the insurance market, helping to reach mass segments with more affordable and customized products. Insurtech platforms can also be used as a channel to educate new consumers and raise awareness about the benefits of insurance.

Seguros123 is an early player in the insurtech market in Ecuador. It works as an online broker and aggregator platform focusing on lower income clients, many buying insurance for the first time. The company offers accident and vehicle insurance and is gradually deploying health and life products. Using client data and deep learning, Seguros123 helps design new products for lower income segment and fosters competition among insurance providers to reduce premiums.

The project will provide financing of up to US\$600,000 to Seguros123. With these resources, the Company will deploy new products to reach at least 77,000 clients in the next five years. New products to be tested include insurance designed for women such as health coverage for breast and cervical cancer, and property coverage for women-owned businesses. The Company will also deploy a large-scale online education campaign to raise awareness about the benefits of insurance, which will be targeted to low-income and underserved people.

The IDB Lab intervention will be in the form of an innovative financing modality for early stage companies, venture debt, which will be structured as a revenue-based loan with repayments scheduled as an increasing percentage of annual revenues instead of fixed amounts. This will minimize cash flow pressure during the Company's ramp up phase while allowing a smoother exit path for IDB Lab as a lender. This type of instrument is being gradually introduced across LAC as an alternative to straight equity for early stage companies. The project, therefore, will also contribute to further developing an innovative financial structure which can potentially become a new asset class.

This project, being one of the first in the IDB Group involving insurtech, will be closely monitored by CMF and TSP. IFD/CMF is interested in learning about insurtech solutions and possible regulatory implications, while TSP is interested in using project data to study risk behavior and to inform public safety initiatives. Seguros123 has agreed to share non-identifiable aggregate data for such purpose.