

FINMARK TRUST

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Pep and Hollard: Making insurance available to low-income earners

A joint venture to sell off-the-shelf “starter pack” insurance for R19.99 a month for funeral, accident and cellphone cover has made buying insurance as easy as picking out a pair of shoes.

Such policies can be bought at Pep Stores around South Africa. They come in packages similar to cellphone starter packs, and are the creation of an innovative partnership between Pep Stores and Hollard Insurance.



The insurance is aimed at customers of Pep, a cash clothing retail chain targeted at the low-income market. It has a network of 942 stores around South Africa and is a subsidiary of Pepkor. Hollard, which is underwriting the products, offers short- and long-term insurance through a variety of distribution channels. In essence, the retail outlet sales are backed by the Hollard call centre – and there is a helpline that customers can phone if they want information. Calls to this “sharecall hotline” are the price of a local call.

Pep receives a commission on all policies sold. Incentives are set for the sales of a branch, with staff receiving bonuses if targets are met. At the Pep Store in Johannesburg that FinMark Trust visited, insurance packs were on a rack at the till. There were also leaflets on a stand at the door of the shop giving more information about the insurance.

Distribution through Pep Stores makes the insurance cheaper. Sales are integrated into Pep’s till system, and Hollard manages the insurance component as part of its existing portfolios. The model makes paying the R19.99 monthly instalments easy. Clients receive a policy and an insurance card with their purchase. Premiums are made in cash at any Pep Store. Clients receive an SMS reminding them to pay their monthly premium and there is a 30-day grace period.

Pep Stores staff is essentially the face of the product – but legally they cannot give advice. As their role is administrative they do not have to be FIAS-registered agents. The model is structured so that advice is provided only on request. The client has to contact the dedicated insurance helpline to clarify any confusing aspects about the policy. Pep Stores has built education about the insurance products into its general

in-house training. Information about the products is also carried on the Pep in-house radio station when the shop is closed to the public – an approach Pep uses for ongoing staff training.

This is how it works in practice: A Pep staffer captures the policy number and telephone number of the client when he or she buys a starter pack. The Hollard call centre then contacts the new client within 48 hours to provide more details about the policy. Advice is also not provided at this time, but the client can request an explanation about the policy. There have been some teething problems with the call centre, but generally people are called back in the given time.

Clients can phone a helpline staffed by FAIS-compliant personnel for information at any time (although at their own cost). Details of this and the number are available on the packs. Pep Stores staff and Hollard call centre staff also tell clients about this helpline

Three products

Pep and Hollard launched three products in March this year. The starter pack contains the policy terms and conditions, as well as an insurance card with the member policy number on it. Customers pay their first premium when they buy their starter pack.

- *Comprehensive Family Funeral Policy.* This covers a main member and spouse and up to five children. The payout for the main member and spouse is R5,000 and double if the death is due to accident. The payout for the children is up to R2,500. Claims are paid to a nominated bank account. For unbanked clients, payments are made through a countrywide network of burial societies and funeral parlours.
- *Family Accident insurance:* The benefit for the main member and spouse is R20,000 and for children, R10,000. The benefit is increased by 50% for the main member and spouse if they die in an accident while travelling either as a driver or passenger in a private vehicle or as a fee-paying passenger on public transport, such as a minibus, bus, train or plane. Claims are paid out in the same way as the funeral insurance, through a nominated bank or the network of burial societies and funeral parlours.
- *Cellphone Insurance:* This is for phones bought at Pep and they are replaced with the same model (or where the model has been discontinued with a similar model), up to the value of R1,000. The policy does not offer a cash payout option as the intention is to ensure that the claimant is in the same position after the loss as before it. All claims are settled through Pep Stores. A R150 excess is payable by the member.

Effectiveness

The products are specifically targeted at individuals in LSM 2-6. As the products were launched only a few months ago, Pep say it is too early to give figures for uptake. However, the two companies say that the initial indications are that customers are responding well to this innovative cash-based insurance.

John Edwards, Financial Services General Manager of Pep Stores, says the two companies also need time to monitor whether people drop out after a few months.

The saleswomen at the Pep Store where FinMark Trust bought packs said that the Family Funeral Policy is the biggest seller by far – and this was confirmed by Edwards as an overall trend around the country.

There is already an established market for funeral cover among low-income earners. People understand this kind of product and the ease of buying this kind of assurance cover at the store compared to other formal and informal products is obvious. However, risk insurance, such as cellphone and accident insurance are not on people's shopping list – and the saleswomen cannot forcefully sell them, because of the legal constraints.

This is one drawback about the product: the saleswomen cannot do too much explaining because of legal constraints. However, the level of language on the packs is a little too complex for people without any experience of insurance or business. Unless people understand issues around disclosure before they make the purchase, they may not even think to ask about disclosure.