

INSURANCE

MICRO

MICROINSURANCE INNOVATIONS STRATEGIES TO INCREASE SCALE AND OUTREACH

Microinsurance Focus Note

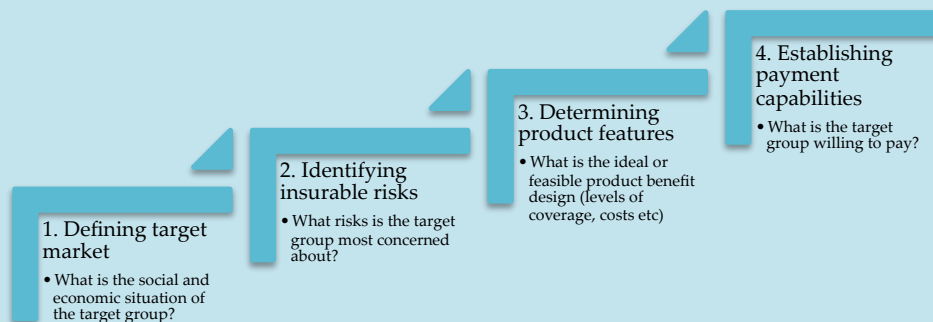
Issue 3, May 2012

Over the last three years, a multi-stakeholder group, the Technical Advisory Group (TAG), has spearheaded a microinsurance development process in Zambia in partnership with FinMark Trust and the International Labour Organisation. Through this process, a series of research and market support interventions have been implemented which are helping to catalyse change within the insurance sector. New products specifically targeting low-income clients are now on offer, whilst others are in the pipeline. The question is, will these early market movers achieve sufficient product penetration over the next few years? Will scale and outreach be attained to guarantee the long-term sustainability of this emerging market? Experience elsewhere shows that scale and outreach is indeed achievable, especially where innovation in product design and delivery is embraced. This focus note summarises some of the factors to consider when developing a microinsurance product, as well as sharing experiences from other countries.

The Microinsurance in Zambia Focus Note Series is published by FinMark Trust. This Focus Note has been authored by Lemmy Manje, Microinsurance Strategy Coordinator. For back-dated copies or more information about FinMark Trust's work in Zambia, please contact Juliet Munro, julietmunro@iconnect.zm.

GETTING STARTED

For many insurers and distributors, the decision to invest in microinsurance is often marred with the notion that low-income people will not appreciate or afford insurance owing to a lack of knowledge or the means to pay for it. In Zambia, this notion is supported by studies that demonstrate low levels of understanding and misconceptions with regard to insurance¹. Within microinsurance literature, four early steps are recommended to be taken at the start of any microinsurance development process in order to help overcome such challenges, as illustrated in Figure 1.



*Figure 1: Microinsurance market engagement process
Source: Adapted from Microinsurance Network²*

The ideal starting point for engagement is market research, to understand the needs and desires of the target market as well as any other demand factors that may impact on product uptake. Through market research, insurers can also gain appreciation of how potential low-income consumers cope with various risks, and leverage on these findings during the product development phase. Key demand factors to take into account when undertaking any survey would include - but not be restricted to - accessibility, affordability and willingness to pay. Addressing such factors is likely to require innovations in product design so that the benefit profiles are appropriately aligned with the characteristics of low-income consumers. Figure 2 summarises the demand factors for microinsurance.

Consumer education is also an important early step in market activation for microinsurance. After all, those with no knowledge of how insurance works are less likely to see its value as a risk-management tool. Investments in education are expected to enhance understanding of the benefits of insurance among low-income people and subsequently trigger product uptake.

¹ Studies include 1) Manje, L and Churchill, C (2002), The Demand for Risk Managing Financial Services in Low-income Communities: Evidence from
² Microinsurance Network, Microinsurance in Focus: Product Design and Risk Management, No. 2.

Having said that, consumer education can be expensive and undermine efforts to make insurance affordable to low-income consumers. Strategies employed by insurers in other countries often involve industry associations or partnerships among insurers to overcome these cost constraints. In Brazil, for example, a series of consumer education initiatives have been jointly funded by insurers. In the Philippines, the associations of insurers for non-life and life insurance are instrumental in leading consumer education campaigns. In Zambia, there is an opportunity for the Insurers Association of Zambia (IAZ) to spearhead consumer education.

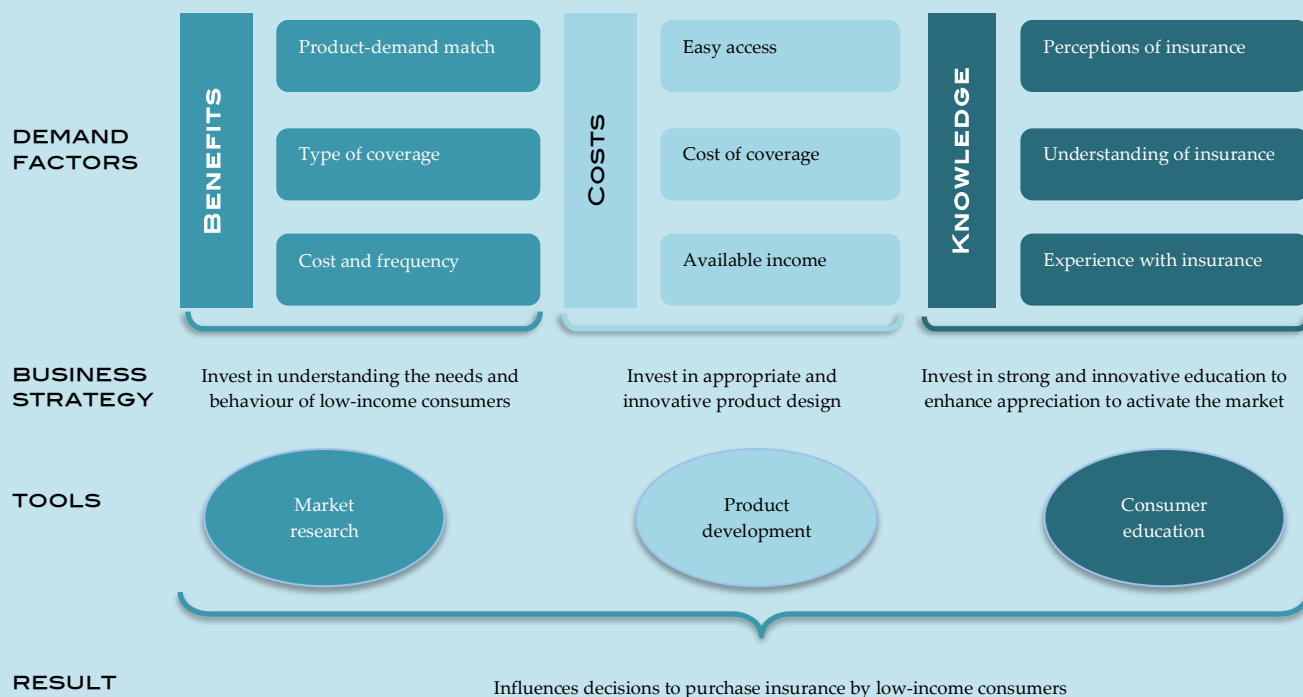


Figure 2 –Factors that influence appreciation and purchase of insurance (adapted from Manje 2007 and McCord 2007)³

MANDATORY OR VOLUNTARY INSURANCE?

Mandatory provision is often a preferred strategy for increasing scale and outreach. In Zambia, mandatory credit life linked to microfinance accounts is still the key driver of current outreach. According to the Microinsurance Network, ‘mandatory insurance can be preferable to voluntary coverage because it reduces administrative costs, lowers the adverse selection risk, improves claims ratios, reduces vulnerability to staff fraud, and makes the product more affordable. On the other hand, with mandatory insurance, insurers and delivery channels tend to overlook consumers’ need for information which can cause significant misunderstanding and dissatisfaction with the coverage.’⁴

³ Manje, L., 2007, Microinsurance Client Satisfaction Study - Zambia, Microfinance Opportunities, Washington D.C, USA.

⁴ Ibid.

In Cambodia, Vision Fund, an MFI, uses mandatory credit life to market its loan products, with the premium being incorporated into the loan interest rate and therefore ‘invisible’⁵. Other examples of compulsory credit life, accidental death and disability products being used to achieve high volumes and increase scale include CIC in Kenya, Aseguradora Rural (ASR) in Guatemala and Malayan Insurance in Philippines. A study comparing the profitability of these products with other non-compulsory products found the compulsory products to be more profitable⁶.

In terms of targeting, mandatory insurance is normally offered to groups of low-income consumers, such as associations or cooperatives, rather than to individuals. Insurers need to seek partnerships that can achieve sales to an established membership or client base. In the case of Zambia, MFIs are a common partner, with insurance sold as a component of microfinance loan products. In South Africa, Old Mutual has strengthened its outreach strategy by establishing physical presence in the communities where it sells funeral insurance products (see Box 1).

BOX 1: OLD MUTUAL SOUTH AFRICA: COMMUNITIES INFLUENCE PURCHASE DECISIONS

The sales experience of Old Mutual in South Africa points to two distinct consumers in the low-income market: an individually motivated consumer and a community-motivated consumer. While an individually motivated consumer is comfortable with making his or her own decision to purchase insurance, community-motivated consumers rely on community input before making a final purchase decision.

Old Mutual reaches its community-motivated consumers with targeted products and marketing. Its funeral insurance products, for example, are sold through affinity-based and community-based groups such as religious, savings, and social development project groups.

To expand community outreach, Old Mutual has increased its presence through village-based retail outlets for financial services called “Greenshops”. This physical presence is anticipated to increase sales by leveraging the influence of the community on consumers to purchase insurance.

Source: Microinsurance Innovation Facility, Emerging Insights No. 30, www.microinsurancefacility.org

Old Mutual’s experience in South Africa shows that mandatory product offerings sold through a community motivation approach should be complemented by appropriate physical presence which can help to educate consumers more effectively about the benefits of insurance and the products on offer. Importantly, while mandatory insurance can offer advantages in terms of achieving scale, insurers offering these products need to balance this with investments in consumer education and client value to ensure that the products are appropriate, that clients are well informed about what they are paying for, and that they know how to claim. Box 2 presents the benefits of voluntary provision in relation to massification of microinsurance.

⁵ Microinsurance Innovation Facility, Improving Credit Life Microinsurance, Briefing Note No. 8.

⁶ Microinsurance Innovation Facility, A Business Case for Microinsurance, Briefing Note No. 9.

BOX 2: VOLUNTARY PROVISION AND MASSIFICATION OF MICROINSURANCE

Massification of access to microinsurance is predicated on getting people to purchase insurance by enhancing their appreciation of how these products will add value to their household risk management strategies.

“Massification should be measured in terms of increased access to good quality ‘voluntary’ microinsurance products. Client satisfaction studies indicate that low-income people are still concerned about forced access. Further, the studies have revealed that literacy levels are not a strong factor in consumer-product education. Illiterate low-income people can understand insurance products. Investment is required in innovative consumer education and marketing approaches to enhance client appreciation of insurance. Despite the growth and development of microinsurance provision, policyholders in some schemes still suffer from product ignorance owing to deficiencies in education, especially in relation to mandatory cover. If microinsurance products do add value to household risk management strategies, insurers and their partners need to invest in providing the right information in a manner that is appropriate for their clients.

In the partner-agent model, there is greater scope for effective delivery of consumer education by insurance companies. There is also scope for joint investments in market research and client satisfaction measurement. Insurance companies are critical for microinsurance product manufacturing and therefore need to better understand the demand for insurance within the low-income market. Microfinance institutions, which often serve as ‘front offices’ for microinsurance, need increased capacity in understanding insurance concepts so that they can communicate them effectively to their clients.” (Manje 2008)

The movement from mandatory to voluntary product offerings brings key elements critical to massification, including:

- Improved, more client-focused microinsurance products, that will foster greater interest and appreciation within the target market
- Market education, to help build an insurance culture
- Efficient customer demand and satisfaction assessment tools so that insurers can continue to enhance their understanding of the market and its needs in terms of products, service, and processes

*Source: Manje 2008 in USAID Microinsurance Note No. 9, **Visions of the Future of Microinsurance and thoughts of getting there**, Michael McCord, March 2008*

ORGANISATIONAL STRUCTURE AND SALES FORCE DEVELOPMENT

There is a tendency for some insurers to treat microinsurance as a side business, particularly in markets where the sector is still in its infancy stages. Yet, it is increasingly recognised that a dedicated organisational structure is critical for any company seeking to deliver microinsurance sustainably. The experiences of many microinsurance providers show that there is need to have dedicated staff tasked with driving microinsurance business within the organisation, as opposed to microinsurance simply being a component of someone’s job. CIC in Kenya has a dedicated department, which has enabled the company to have a focused sales force for its microinsurance products. Similarly, Clientele in South Africa has dedicated staff to drive sales to low-income consumers. Having a dedicated organisational structure has helped a number of insurers in the implementation of effective sales force strategies. The ILO’s Microinsurance Innovation Facility recently commissioned a study on sales force development practices to provide tips and tools to microinsurance providers on how to improve the performance of their sales force. The key findings are summarized in Box 3.

BOX 3: TIPS ON SALES FORCE STRATEGIES

- *Integrate recruitment with upfront training.* Integrating training and recruitment is particularly effective when recruiting employees with basic education or when candidates are difficult to differentiate based on their past experience.
- *Use communities to source and screen agents.* Hiring staff that have gained the trust of, and built a strong rapport with, a target community is a key success factor, particularly for sales agents who live and work in a community. Some organisations prioritize hiring community leaders or using leaders to screen potential candidates.
- *Sell the product to sales agents.* Insurers can encourage sellers to personally experience the product, for example, by providing a discount to sales force staff. If sales agents pay for and use the product, they will have a personal understanding of the product, and convey their satisfaction to potential clients.
- *Don't rely on volume-based financial incentives alone.* A sales force should optimise both the number and the quality of sales. Good quality sales increase the likelihood of renewals, thus protecting clients against risk in the long term and enhancing the sustainability of the insurance scheme.
- *Use team-based financial incentives.* Group financial incentives help motivate a team to work together towards a common objective, and are particularly relevant to pilot programs or businesses that have not yet reached break-even.
- *Encourage a distribution partner to give financial incentives directly to sales agents.* For models that rely on sales agents that are located within a distribution partner, agree on the level of financial incentives distributed to sales agents up front.
- *Implement systematic monitoring systems.* Quality assurance systems can involve listening in on agents' calls to ensure that agents meet compliance requirements.

Source: ILO Microinsurance Innovation Facility Thematic Studies, Sales force development, www.microinsurancefacility.org

PRODUCT INNOVATION

Selling insurance to people who have little or no experience and appreciation of insurance is not easy. Alongside consumer education, investments in product innovation are important, in terms of both design and delivery. Box 4 gives an example of a product innovation in Guinea that aims to increase outreach.

BOX 4: PRODUCT INNOVATIONS TO IMPROVE OUTREACH

In Guinea, the Centre International de Developpement et de Recherche (CIDR), decided to diversify beyond the common family health product in order to improve the outreach of mutual insurance organisations. One of the innovative products introduced was a group school health product that covers health risks of children while at school, and is designed to meet the needs of both the schools and parents. The product is relatively inexpensive to sell and manage. Acquisition costs are kept low by selling the group product to schools with approval from the school director and parent representatives. The premium is included in the school fees and costs as little as US\$ 0.3/child/year.

Source: *Microfinance Focus*, October 18, 2011/ ILO Microinsurance Innovation Facility Emerging Insights, www.microinsurancefacility.org

Microinsurance innovation varies depending on the country and firm. The main objective is to identify and test product features and delivery mechanisms that are most relevant within the target market. Innovation also demands that insurers are not risk averse, but rather willing to venture into unknown territories and new business lines. In Zambia, through the on-going implementation of the microinsurance development strategy, a number of insurance companies are slowly embracing innovation as they introduce

microinsurance products to the low-income market. One good example is the BantuBonse Life Plan (see Box 5). Facilities such as the ILO's international Microinsurance Innovation Facility (MIIF) and the recently launched Microinsurance Acceleration Facility (MAF) in Zambia are aimed at supporting such product innovations and thereby increasing the prospects for success.

BOX 5: BANTUBONSE LIFE PLAN BY PROFESSIONAL LIFE ASSURANCE, ZAMBIA

In January 2012, Professional Life Assurance Limited (PLAL) introduced the BantuBonse Life Plan, a simple product with a low one-off annual premium (minimum US \$ 6 for a payout of US\$200), the first of its kind in the market. PLAL has expanded its direct sales agent network and introduced a new sales commission structure to increase sales. The product is also being distributed through a variety of aggregators, which include affinity groups, sector associations, supermarkets, mobile phone operators and MFIs. PLAL is continuing to test new marketing strategies and consumer awareness initiatives to increase product awareness, knowledge and uptake among low-income consumers.

Source: Rajagopal Krishnaswamy, Managing Director, Professional Life Assurance Limited

USE OF TECHNOLOGY

A common challenge for insurers is finding the most cost effective ways of collecting premiums. In the developing world, mobile technology has so far proved to be a viable option. In Kenya, the Kilimo Salama programme (translated as “safe farming”) is a partnership between the Syngenta Foundation for Sustainable Agriculture, UAP Insurance, and the telecoms operator Safaricom. The programme offers farmers weather index insurance against financial losses in the event of drought or excess rain, with Safaricom's mobile phone network providing the platform for premium collection and claims payouts. Kilimo Salama is one of many examples of insurers leveraging technology for product distribution, without compromising product affordability for the targeted low-income consumers. In Zambia, one of the recent developments of a product leveraging on mobile phone technology is the recently launched product by African Life Assurance Zambia (ALAZ) as described in Box 6.

BOX 6: AFRICAN LIFE-MTN 'LIFE AFTER LIFE', ZAMBIA

The recently launched product by African Life Assurance Zambia (ALAZ), 'MTN Life after Life', is the first insurance product ever to be offered in Zambia using a mobile phone platform. ALAZ is partnering with MTN Zambia (MTN) to allow MTN customers to sign up for affordable and convenient life cover with ALAZ. Policies are distributed through MTN, which provides a convenient registration process. The payment of monthly premium installments is facilitated through MTN's Online Charging System, by deducting the respective minimal amounts from the registered customer's airtime account. Owing to the simplicity in product distribution as well as price (as low as US 0.30 premium per month for a payout of US \$ 200), there are huge prospects of achieving scale and outreach.

Source: Gary Corbit, Managing Director, African Life Assurance Zambia

This focus note provides a snapshot of some of the strategies that can be considered by Zambia's insurers in their efforts to increase scale and outreach. The strategies are not exhaustive but meant to stimulate thinking among those interested in penetrating low-income markets. As evident, insurers are starting to embrace innovation in product design and delivery. While it is too early to present any results, practices elsewhere suggest that insurers in Zambia are on the right path. The bottom line is that, although there are variations across countries, the characteristics of low-income markets are very similar and market penetration often demands product simplicity and innovations in delivery.

Microinsurance FOCUS Note

MICROINSURANCE DEVELOPMENT PROCESS-ZAMBIA

FOR MORE INFORMATION

Lemmy Manje
Microinsurance Strategy Coordinator
Email: lemmy_manje@msn.com
Phone: +260 97 787 1427

Juliet Munro
FinMark Trust Zambia Coordinator
Email: julietmunro@iconnect.zm
Phone: +260 97 784 8311

Titus Kalenga
Chairperson – Technical Advisory Group
Email: titus@nicoinsurance.com
Phone: +260 97 777 2238



Making financial markets work for the poor

