

RECOMMENDATIONS FOR COMMERCIAL INSURERS

Low-income households could potentially become an exciting and modestly profitable new niche for commercial insurers. However, the poor represent a unique target market that requires a different approach. This note highlights ten key issues that insurers should consider in order to provide viable microinsurance that offers value for the clients.

1. Understand the market's needs

The key to successful entry and survival in any market is a thorough understanding of the demand and needs. But in microinsurance, it is important for insurers to recognize that they most likely do not know a lot about this market segment.

When starting microinsurance, insurers are often reluctant to conduct market research because they find it hard to justify the upfront investment for products with such small premiums. But it does not have to be expensive. If properly facilitated, a series of focus group discussions can provide insurers with invaluable insights into the priority risks facing poor households, their seasonal cash flows, and level of familiarity with insurance.

When engaging in market research, insurers should not simply outsource a study – one cannot get a sufficient appreciation by reading a report. They should also engage with the market to hear first hand what people think. Insurers who have gotten out of their air-conditioned offices and spent time in barrios and rural villages often come away with a greater appreciation for the target market's concerns and preferences, which can lead to better insurance solutions.

2. Involve the target market in designing simple products

Microinsurance is not a scaled down version of existing products. Insurance solutions for the low-income market often do not come from conventional insurance practices. To penetrate this market, insurers need to be innovative and open minded.

The low-income market is not homogeneous – there is no such thing as a “one size fits all” solution. Ideally, the target market should be involved in designing the products to ensure that they meet their needs. This process will also increase their acceptance of insurance, which is something that should not be taken lightly. It is important, however, that the resulting

products are as simple as possible. Exclusions and restrictions should be minimized.

3. Educate the target market

The low-income market is often unfamiliar with insurance – for example, policyholders may want their premiums refunded if they do not experience any claims.

Insurers must educate the market on key issues: How does insurance work? Under what circumstances is insurance an appropriate risk management tool? When are savings or credit better solutions? How are benefits claimed? How is membership retained? Some insurers realize that unconventional ways are required to communicate with a market that may be illiterate, such as street theatre, soap opera-style videos, and illustration-laden brochures.

4. Earn the trust of the market

Commercial insurers have to recognize that low-income persons may not trust their intentions. What can the insurer do to earn the trust of the market? Pay claims quickly and (almost) always; make sure that there is no confusion about what is and is not covered or how to claim; partner with trusted persons and organizations; demonstrate that the microinsurance scheme is different than other conventional insurance schemes (which may have a bad reputation); ensure that servicing the product gets as much attention as sales; and show that the insurer cares about helping its customers manage risk.

In general, to earn the trust of the market insurers need to be transparent in pricing, operations and customer service, and not simply try to gain from the market's ignorance. Indeed, such a strategy might succeed in the short run, but it will certainly be a detrimental in the medium term.

5. Maximize efficiencies

There is no room for inefficiencies in a microinsurance budget. By keeping the product simple, it may be possible to hire less qualified staff members – people from the local communities can be excellent agents as long as they are trained properly. Additionally, technology may be useful to streamline processes, for example through paperless documentation streams, smart-cards to verify the identification and payment status of claimants, and mechanisms to pay premiums through cell phones.

6. Leverage existing relationships

One way to earn the trust of the market and maximize efficiencies is build on existing relationships to deliver insurance products. Insurers can collaborate with microfinance institutions and community-based organizations. If a delivery channel already engages in some sort of financial transaction with the target market, then efficiencies could be generated by “piggy-backing” premium collection onto it. However, particular attention should be paid to choosing the right partner. Just because an organization has a good reputation does not mean that it will be a good “agent”.

When partnering with distribution channels, insurers need to stay engaged if they want to succeed. For example, they should consider being involved in the training and motivating of front line agent staff (in coordination with the institutional agent). They should also monitor the results, such as ensuring that policyholders receive the correct information and that benefits actually reach the beneficiaries.

7. Encourage claims

Insurers are notorious for being quick to take the policyholder’s money, but slow to pay out. This is exactly what should not happen in the low-income market. Indeed, the best marketing opportunity for an insurer, the best way of changing the opinions of a lukewarm and sceptical market, the best way to demonstrate its trustworthiness, is to pay claims!

Consequently, insurers should make Herculean efforts to avoid rejecting claims. This can be done by keeping the product simple, making sure policyholders understand what is and is not covered, and requiring only the most basic claims documentation. Where possible, claims decisions should be clear and not subject to interpretation. In some cases it might even make sense to pay claims that the insurer could legitimately reject in order to gain trust in the market.

8. Create an internal microinsurance culture

Like other double bottom line activities, microinsurance requires a balance of commercial and social objectives. Consequently, microinsurance needs some space to experiment and innovate, to do things differ-

ently than the insurer has done in the past. Different incentives and targets should be considered for microinsurance staff, such as salary steps instead of commission-only remuneration. Overall, the remuneration should motivate sales and customer service, not encourage salespeople to sell products that are not really needed. In addition, non-financial recognition could also be used as an incentive or reward.

9. Reach large numbers and keep them

Economies of scale are essential to minimize operating costs. Even if the per unit profit is miniscule, when it multiplied a cross a huge number of sales, the return could be attractive to insurers. For that to be possible, microinsurers not only need to cover thousands and thousands of lives, but they also must ensure that those policies are regularly renewed. The recommendations mentioned here will help contribute to this objective. Keeping existing customers happy and expanding the customer base is critical to success in microinsurance.

10. Adopt a long-term perspective

If an insurer links up with a few perfect partner organizations, it might be able to reach large numbers of people and generate positive returns fairly quickly. But to provide good value to customers, insurers should take a long-term perspective and assume that real returns will only come several years down the line. The focus should be on maximizing customer loyalty and not on generating quick returns. The latter will inevitably backfire and reinforce the market’s negative perception of insurance.

In sum, the business model for microinsurance depends on several mutually reinforcing elements: a) huge volumes, b) efficiency c) retention, and d) patience. The last element is perhaps the most surprising, but it should not be. Ideally, low-income households will not remain poor forever. Insurers that establish a good reputation and brand awareness in the low-income market today are likely to be rewarded as the purchasing power of these households increases. Indeed, some insurers see their initial foray into the low-income market as a loss leader, but hope that cross-sell opportunities will enable them to generate profits in the future.

The International Labour Organization (ILO) and the Munich Re Foundation recently published ***Protecting the Poor: A Microinsurance Compendium*** on behalf of the CGAP Working Group for Microinsurance. This authoritative book analyzes the experiences of more than 40 microinsurance providers and is based on the **Good and Bad Practices** project led by the Operation Subgroup and funded by DFID, GTZ, the ILO and SIDA. The translations into French and Spanish are financed by ADA.

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