

ORGANIZATIONAL DEVELOPMENT IN MICROINSURANCE

Organizational development is a planned effort to increase an organization's effectiveness by intervening in operational processes. To offer effective insurance to the poor, changes in beliefs, attitudes, values and the structure of organizations may be required.

As a service industry, microinsurance offers an intangible service that is often not well regarded and understood. In addition, since the risk carrier and the distributor can be different organizations, the insurer may have little or no control over the frontline staff. This lack of control over the frontline staff necessitates creativity in training and rewarding workers. This brief examines five aspects of organizational development: 1) organizational structure, 2) recruitment, 3) training, 4) compensation, and 5) institutional culture.

Organizational structure

Microinsurance is often just a small piece of a larger organization's activities. In an insurance company, it may be a product line or even just a few policies. For delivery channels, such as microfinance institutions, microinsurance tends to be treated as a less important product than the organizations' core services.

The only exception is the community-based model, which exists to provide coverage to a defined group. Perhaps if more organizations were only or primarily focused on providing insurance to the poor, greater energy and attention would have been harnessed for structural innovation.

For organizations that are only marginally involved in microinsurance, there are some simple and clear lessons about how it can be structured within a larger organization – both the distribution channel and the insurance company – to achieve the best results.

To ensure that sufficient attention is given to microinsurance, **distribution channels** should have a small department at the head office to enable them to focus on insurance. This department acts as a first line of response to queries from field staff and clients. In addition, it consolidates all premiums from the branches and arranges monthly payments to insurers, it acts as a filter for claims by ensuring that they are valid and that all documentation is in order before they pass to the insurance company, and performs vital record-keeping functions. Finally, a microinsurance champion within the senior management team and on the board can promote the product and give it a voice at a strategic level in the organization.

In a delivery channel's **field operations**, there are two main ways to structure responsibilities when insurance is not the organization's core business. The more common approach is to integrate insurance into the activities of the frontline staff, such as tellers and loan officers. For example, when they open savings accounts, they can encourage new clients to also buy insurance. However, if the frontline operations become sufficiently large, an insurance specialist at the branch-level may be hired to handle the more complicated questions and solve problems that general staff cannot handle. This arrangement tends to have a compounding effect on sales; for example, premiums in credit unions with insurance specialists tend to grow faster than in those without specialists.

As for risk carriers, **insurance companies** serving the low-income market might also want to consider creating a special unit or even a subsidiary concentrating on microinsurance. This focused effort will enable them to get a better understanding of the micro market and find creative ways to respond.

Recruitment

The screening and selection of **frontline staff** involved in distributing insurance is usually based on the criteria for their main responsibilities, such as granting loans. Selling an intangible service like insurance requires a higher sales expertise. Therefore, it is advisable to consider their insurance responsibilities when recruiting people.

In filling management and **back office** positions, insurers can act in one of two ways: either they can recruit intelligent people with development experience and teach them about insurance or they can employ insurance specialists to help them understand the low-income market – some combination of the two might work best.

Microinsurers can also look outward for the necessary expertise, especially when retaining full-time experts is either not possible or not cost-effective. For example, outsourcing is common among conventional insurance companies who often rely on actuarial consultants.

Training

Since organizations are unlikely to find many people with microinsurance experience, they need to compensate by making significant investments in staff training. However, experience in the field has shown that staff training remains one of the greatest areas for

improvement. A major cause of this problem is compulsory insurance which causes training to be largely overlooked. Even when the product is voluntary, staff training still proves to be a significant challenge. In general, training for frontline personnel should include:

- Basic insurance principles
- Specifics of the products' policies and procedures
- Details of the pilot test results (for new products)
- Familiarity with the operations manual
- Strategies for adult education, including how to use educational tools
- Demonstrations on how to use marketing materials, such as pamphlets and posters
- Role-play exercises to make mistakes in the classroom rather than in front of clients
- Customer-service training
- An examination to ensure that a level of understanding has been achieved

It is important that insurance training extends to back-office staff and high level managers. Lastly, micro-insurers should regularly upgrade staff skills with the intention of creating a career path that will enhance staff retention.

Recognizing that training of frontline staff is a challenge, insurers that collaborate with delivery channels should not assume that their partners have the right skill set in the field to provide insurance, and should assume some responsibility for monitoring how they are represented in the field.

Compensation

To keep microinsurance affordable, staff compensation is kept low. However, this results in high staff turnover. The insurer's dilemma is how to reward sales to retain staff and achieve greater outreach without pushing insurance onto poor people. At the same time, there is a danger of not compensating field staff adequately enough for them to sell the product or maximize their efforts, leading to ill-informed or misled clients. The remuneration should motivate sales and provide customer service.

With different products, the insurance has tried different means of structuring commissions to reward agents. For long-term insurance products, commissions are often frontloaded. Such an incentive structure can have a negative effect on the retention rate as the agent's commission is reduced. When an agent earns three to six times to enrol a new client, it will be much more attractive to sign up new members instead

of collecting premiums from the old ones. One way to combat this problem is to separate responsibilities between sales and premium collection.

In general, since the sums insured are very small, it is difficult for commissions (typically 10-20 per cent) to be large enough to influence agent behaviour. Insurers must come up with other incentives to motivate sales such as stimulating competition between agents. In general, incentives that reward client retention are likely to be more appropriate for microinsurance than incentives strongly linked to sales.

Institutional culture

Microinsurance organizational culture has to marry a social concern with an appreciation for the bottom line. Any organization that strives to serve both the poor and mainstream markets will need to take affirmative action to ensure that its field staff are actively serving the poor. One way to achieve this is to separate the sales forces, or house the microinsurance activities in a different organization, with different hiring requirements, standards and reward systems. Other manifestations of a microinsurance culture include:

- **Relationship building** – Microinsurance requires field staff to focus more on building a relationship than making a sale.
- **After-sales service** – Policyholders need to know what is covered and receive any assistance they require in preparing claims documents. The higher costs of these activities are expected to be offset by enhanced customer retention.
- **Claims processing** – Providers have to enhance the market's trust of insurance by minimizing exclusions, making it easy to submit valid claims, and even seeking out beneficiaries who may not have realized that they can claim.
- **Claims rejections** – Microinsurers need to minimize the likelihood of claims rejection. If claims have to be rejected, microinsurers need to find a way of communicating that result in a way that makes the decision acceptable to the claimant.

Microinsurance culture may be easier to create in a mutual insurance company or a community-based scheme than in a private, for-profit company. Member-owned schemes are intended to maximize member benefits rather than shareholder profits, and are therefore more likely to go to greater lengths to provide appropriate microinsurance service.

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 Case Study Project** led by the Operation Sub-group and funded by DFID, GTZ, the ILO and SIDA. The translations into French and Spanish are financed by ADA.

The content of this note is based on Chapter 3.7 in Churchill (ed.) 2006. *Protecting the Poor: A Microinsurance Compendium* (Geneva: ILO) – ISBN 978-92-2-119254-1