

La Equidad - Colombia

CGAP Working Group on Microinsurance Good and Bad Practices Case Study No. 12

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Agenda

PART I

- Overview:
 - Colombia
 - Cooperative Insurers & Microinsurance
 - La Equidad Seguros

PART II

- *AMPARAR*: An alliance between La Equidad and MFIs -- Women's World Foundation

PART III

- *EQUIVIDA*: An alliance between La Equidad and its member cooperative owners

PART IV

- Lessons & Discussion

A Brief Overview: Colombia

Country basics:

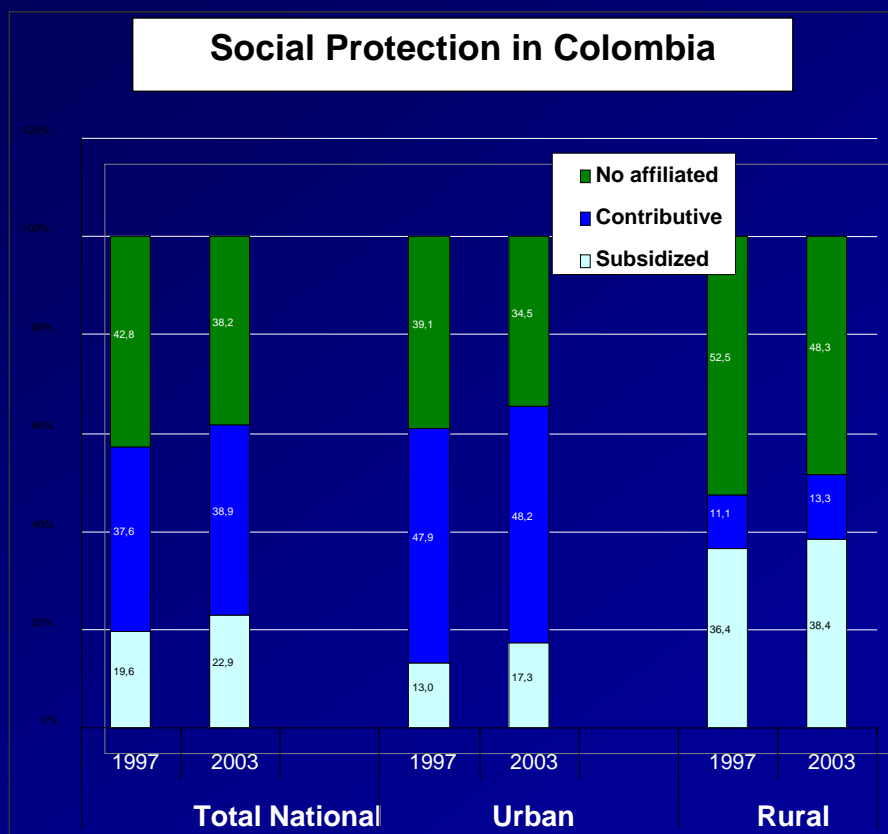
- Population: 44.5 million
- Urban = 71%
Rural = 28%
- Unemployment = 13.6% (2004 est.)
- Per capita income = \$6,600
- Population below poverty line: 64%
- Literacy = 90%



Social Protection:

- Last reform 1993: social protection of workers (pension, health, work-related)
- Preventive health system: subsidized and contributive. Informal workers can join.
- Government promotes market competition and innovation to make insurance products available to the majority of Colombians.

THE MARKET POTENTIAL FOR MICROINSURANCE



What is Cooperative and Mutual Insurance?

Five principle aspects that distinguish them from other kinds of insurers:

- Collectively owned by their individual policyholders (mutuals) or by cooperatives and other group-based organizations.
- Democratically governed structure.
- Equitable sharing of both gains and losses.
- Legally incorporated and registered.
- Were created to give access to insurance protections to groups who had none.

Perspectives of Cooperative Insurers

- **NUMBERS REACHED:** Measuring by **number of persons** insured, cooperative insurers are the largest life insurers in many countries
 - La Equidad: over 4 million Colombians
- **PREMIUM VOLUME:** Measuring by **premium volume**, cooperative insurers are generally in the lower 50%.
 - La Equidad is **13th** out of 21 life insurance companies in terms of premium volume (2004)
- **LESSON:** Cooperative insurers have extensive experience in **collecting small premiums from a large number of low to middle income persons**. Cooperative insurers have been doing microinsurance for 40+ years!

La Equidad - Background

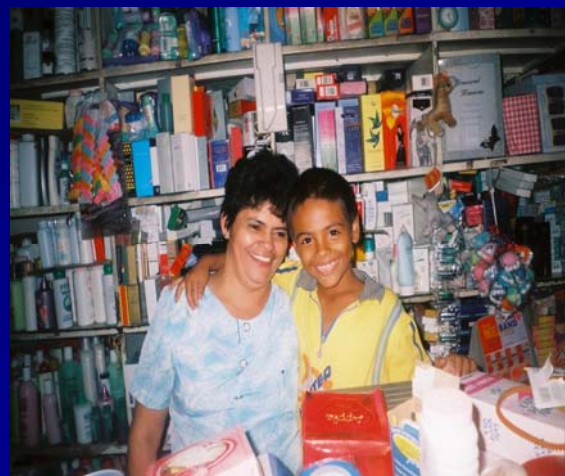
- Founded in 1970, based in Bogotá
- La Equidad General + La Equidad Life
US\$99.3 Million Assets
US\$34 Million Total Premium
 - US\$9.4 Million General
 - US\$25 Million Life
- 1,200 cooperatives, NGOs & individuals
- 1,5 Million members
- 4 million persons insured (life)
- 212 employees
- 22 branch offices nationwide
- AA Rating
- ISO 9001 Certified
- Operates under both cooperative law and supervision by superintendence of banks (delegation for insurance)



PART II

AMPARAR

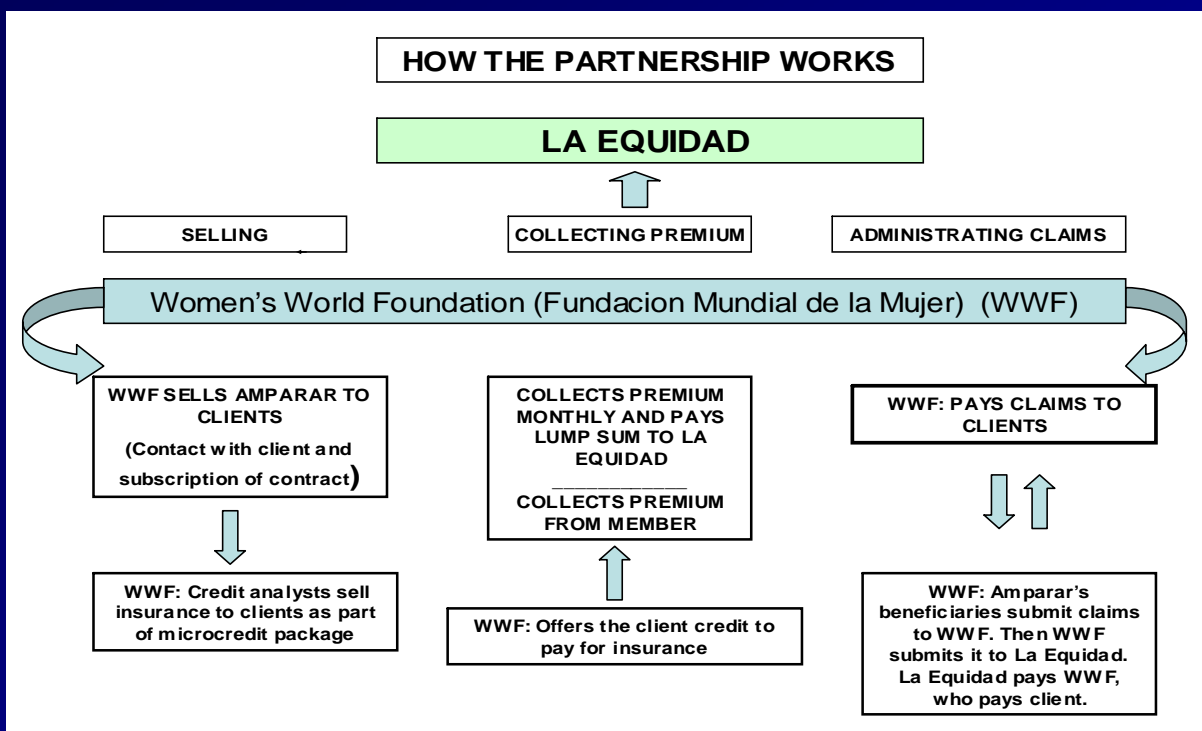
*A microinsurance product
designed for clients of
Women's World
Foundation*



The Product - Amparar

Benefits	Plan 1 (smallest)	Plan 6 (largest)
Death by any cause	US\$1.244	US\$8.292
Total/permanent disability	US\$1.244	US\$8.292
Groceries for 12 months	US\$25	US\$104
Utilities - 12 months	US\$12	US\$62
Funeral	US\$62	US\$332
Optional: Educational expenses for children - 24 months	US\$15 premium = US\$2/year	US\$75 premium = US\$10/year
Annual Premium	US\$10	US\$58
Monthly Premium	US\$0.83	US\$4.83

How an Alliance Works - Amparar



Product Design Evolution

- **Market Research:** Conducted survey of low income people and basic protection desired.
- **Pilot Product Design:** Designed *My Family First*, an individual life product. Benefits included: death, permanent or temporary disability, children's education, payment of utilities, food, medical expenses for children, funeral expense.
- **Distribution Channel:** (1) Through independent sales force of Saludcoop, a health service cooperative; and after 7 months (2) through own sales force. Launched in 7 cities and 15 rural municipalities.

LESSONS

- Lack of policyholders' discipline in monthly premium payments.
- Lack of incentives for agents as a result of low revenues from very small premiums.
- Problems recruiting insurance salespersons in smaller cities.
- Long time for potential clients to make decision to buy insurance.

Product Design Evolution: *Amparar*

- **Market Research:** Used knowledge from previous research and a new alliance with the MFI, Women's World Foundation-WWF (was looking for a microinsurance partner). WWF knew its market.
- **Pilot Product Design:** Designed *Amparar* together with WWF. Made the product simpler: Reduced amount of coverage and number of benefits to make the premium smaller. From individual life insurance changed to a group life insurance product: *Amparar*.
- **Distribution Channel:** WWF had a clientele of over 40,000 microentrepreneurs and a sale force of over 71 credit analysts. Linked *Amparar* to the microcredit (voluntary option). Offered the annual premium cost as part of the total microloan. Launched in 7 WWF agencies.
- **Results:** *Amparar* launched in November 2003. As of March 2005 had over 10,120 insureds, or 25% of clients of WWF. Total accumulated premiums amounted to US\$59,720. Paid 7 claims. Product profitable (22%)

Roles in the Alliance

ROLE OF WWF (MFIs)	ROLE OF LA EQUIDAD
<ul style="list-style-type: none"> ■ Client Base (40,000+ clients) ■ Commitment of CEO (mission and vision) ■ Commitment of Managerial Staff. ■ Flexibility to collaborate in product design. ■ Assign responsibility for selling insurance to credit analyst linked to incentives. ■ Sales force of 71 credit analysts ■ Flexibility and capability to incorporate new product into computer equipment and MIS. ■ Specialized training to sale insurance for credit analysts ■ Financing of annual premium ■ Premium collection ■ 50% publicity 	<ul style="list-style-type: none"> ■ Interest in <u>expanding</u> coverage to lower income groups. ■ Commitment of CEO (mission, vision and investment): Protection. ■ Commitment of managerial team to develop product. ■ Clear assigned responsibility to regional manager and account manager (monitors, trains WWF staff) customer services and follow-up. ■ Design of product: risk acceptance. ■ Development of software for WWF. ■ Training. ■ Financial incentives for WWF. ■ 50% publicity.
DIFFICULTIES IN OPERATIONALIZATION	RESPONSE FROM LA EQUIDAD
<ul style="list-style-type: none"> ■ Lack of computer system <u>network</u>. ■ Limited time of credit analyst to sell product. ■ Agency incentives vs. individual incentives. 	<ul style="list-style-type: none"> ■ Develop software that adapts to WWF. ■ Continue to monitor, identify good practice, retrain. ■ Review incentives.

Benefits of the Alliance

Microfinance Institutions	Clients
■ New products for clients	■ Reduces vulnerability: death of the breadwinner
■ Financial incentives	■ Access to insurance: available funds during adjustment period
■ Financial management of resources (30 days)	■ Ease of payment
■ Direct training for employees	■ Ease of purchase, collection and claims
■ Development of sales skills	■ Automatic coverage upon signing the insurance application
■ Increased competitiveness	■ Easy products to understand and explain
	■ Minimum exclusions

Amparar Potential & Challenges

FOR WWF:

- Market Potential: WWF is the pioneer and only Colombian MFI that offers a group life insurance.
- Challenge of renewal for those who don't renew microcredit.
- Computerization: upgrade to system network.
- Continuous upgrade of incentives to credit analysts.

FOR LA EQUIDAD:

- Collaborate with WWF to improve operationalization in order to make system work more efficiently.
- Competition from other insurers.
- Ability to offer microinsurance for other Colombian MFIs.

PART III

EQUVIDA

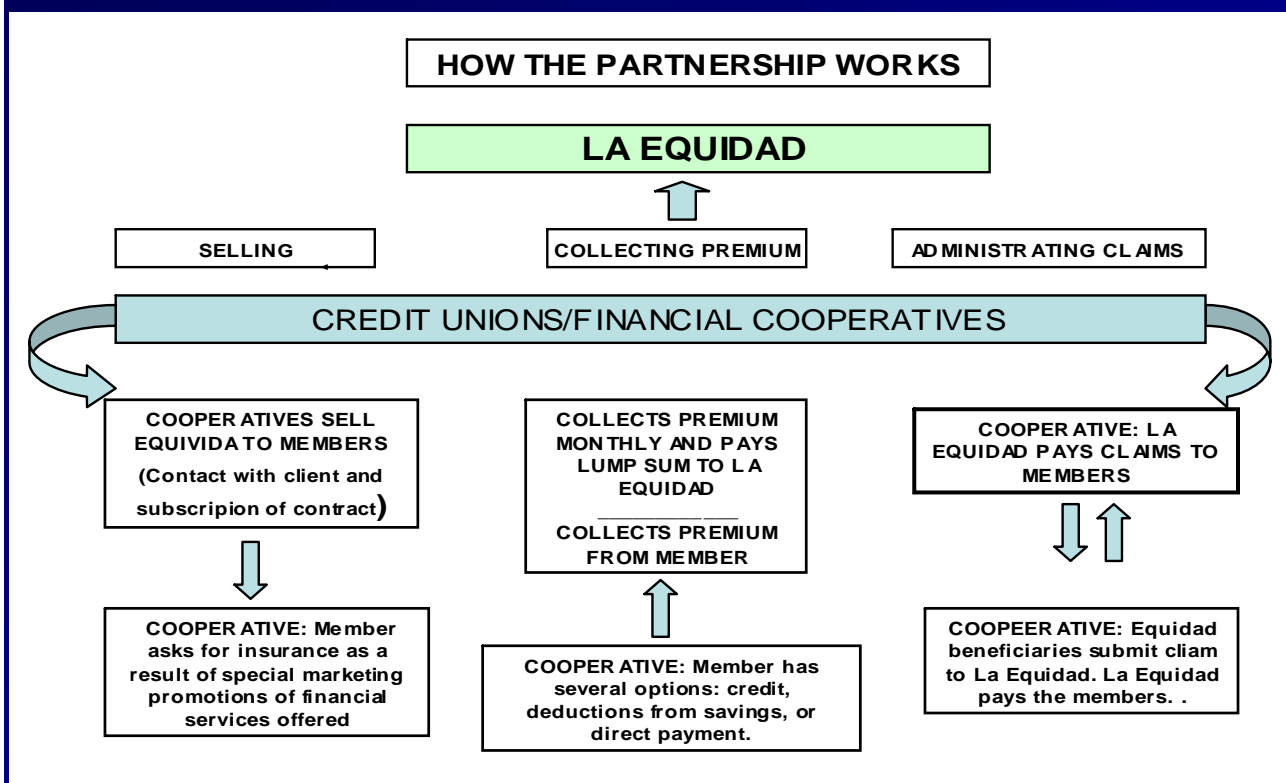
A microinsurance product designed for cooperative members



The Product - Equivida

Benefits	Plan 1	Plan 2	Plan 3
Death by any cause	US\$4,146	\$8,292	\$16,584
Total/permanent disability	US\$4,146	\$8,292	\$16,584
Catastrophic Illness	US\$2,073	\$4,146	\$8,292
Basic Monthly Premium	US\$1.54	\$3.08	\$6.16
Option 1: Accidental Death/ Dismemberment	US\$4,146 Prem:+0.61	\$8,292 P: +1.21	\$16,584 P: +2.44
Option 2: - Medical Expenses Accident - Monthly Allowance: Accident's Total and Perm. Disability	US\$415 US\$21 Prem:+1.39	US\$829 US\$41 P: +2.78	\$1658 \$83 P: +5.56
Option 3: Additional death expenses (funeral)	US\$207 Prem:+0.12	\$415 P: +0.24	\$829 P: +0.48

How an Alliance Works: Equivida



Product Design Evolution: Equivida

- **Market Research:** Based on work with cooperative members and included results from market study.
- **Pilot Product Design:** Basic life policy with innovative payout for catastrophic illness.
- **Distribution Channel:** Through cooperatives to the members; each cooperative receives commissions on sales and determines their own marketing strategy. La Equidad staff provided to larger cooperatives.

Equivida Results

- Equivida launched in 1999.
- As of March 2005 has over 18,000 insureds through 199 group policies.
- Total premiums in 2004 amounted to US\$593,000.
- Product profitability (23%).

Plan Coverage	Number of Insureds
US\$4145 and below	9,684
US\$4975 - \$8292	4,476
US\$10,365- \$14,510	1,323
US\$16,584 - \$41,460	2,740
Total	18,223

Equivida Potential & Challenges

- **Market Potential:** over 50% financial cooperatives/credit union members are low income
- **Challenges:**
 - Marketing through cooperatives could be improved
 - Complex product with many options/benefits
 - Product not well integrated into core services of cooperatives
 - Marketing materials of cooperatives do not highlight insurance sufficiently
 - Member insurance awareness and education needed
 - Competes with 70 other La Equidad insurance products offered through cooperatives

PART IV

LESSONS LEARNED AND DISCUSSION



Lessons Learned

La Equidad/Insurers:

- The people who most need insurance are those who can least afford it
- Even a little insurance is better than none
- Simple products are best
- Group products are essential for low income markets because they are less costly to administer and keep premiums low.
- Find efficient distribution channels through organizations that already have relationships with large numbers of low income persons.
- Encourage development “win-win” alliances.
- To avoid lapses and reduce costs, use automatic premium payment systems (i.e. inclusion with loan, debit savings)
- Important to work with financially viable partners (microfinance institutions, cooperatives, NGOs)
- Commitment at the highest level of management.

Challenges

according to

the President of La Equidad, Julio Medrano:

For La Equidad microcredit and microinsurance are complementary: we need to strengthen this relationship.

La Equidad has insurance products for the poor: we need the channels to reach them.

Lessons Learned for Microfinance Institutions, Cooperatives & Insurers

- Staff of MFIs and cooperatives require marketing and technical insurance training from insurers
- Computerized operations and networks are required among agencies to reach scale in an effective and efficient way
- Allow plenty of time to “operationalize” the product: this is a new alliance and it takes time to learn new procedures, processes, systems, etc.

Lessons Learned for International Development Agencies and Networks

Make Risk Management Protection for the Poor a Joint Campaign:

- Develop and lead strategy to improve the protection of low-income Colombians who today qualify to join social protection programs, qualify for subsidies, are willing to pay for their microinsurance.
- Strategy should include educational program on insurance protection: the large majority lack knowledge on what is accessible in the market.

Lessons Learned for International Development Agencies and Networks

- Give visibility to cooperative insurers. There is need for exchange of information and knowledge.
- Leverage funds for mutual collaboration and product development, and information technology systems.
- Design and disseminate insurance education and awareness.
- Encourage development “win-win” alliances between insurers and MFIs.

Thank you! ¡Gracias! Danke!

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Lessons Learned

For the WWF/MFI AMPARAR Clients:

- ***Microcredit and microinsurance are complementary:*** Amparar has become a recapitalization fund for the microbusiness after the loss of the owner or co-owner.
- **As with microcredit, policyholders start with lowest premium and coverage and as they learn more about protection (and business grows) they are willing to pay a higher premium for more protection.**
- **Coverage including payments of education, food and utilities is highly valued by low income groups**
- **Microinsurance products are easier to sell when they are simple and easy to understand**
- **The best way to learn about insurance is from those who have benefited from a claim: share impact with clients.**