

# WG9 “Alternative Approaches”

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## Microinsurance Distribution

- Microinsurance is low cost high volume business.
- To do it profitably one must keep down the costs of sales and servicing (transaction costs).
- Client transaction costs AND provider transaction costs.

# The distribution models to date?

- Mutual/Co-operative/Community Based
- Partner Agent with an MFI as a partner - policy linked to a loan

## What are the alternatives?

### Alternative 1: MFI as partner but policy linked to savings

- How does it work?
- Example TUW SKOK, Poland – Savings completion insurance (life)
- Advantages:
  - Not everyone wants to be in debt
  - Few additional transactions costs for client and institution
- Disadvantage:
  - Still linked to a financial service; need access to savings

# Alternative 2: Micro-Agents

- Micro Agent Model of TATA-AIG.
- Involves a partnership with an NGO (not necessarily an MFI).
- Agents trained by insurer.
- Form into groups (de facto micro brokerage).
- Similar to Tupperware<sup>®</sup> and Avon<sup>®</sup> (direct marketing).

# Alternative 2: Micro-Agents

- Advantages:
  - Creates new profession
  - No link to loan, savings or indeed any other product or service.
  - No dependence on MFI's (good ones may already be in partnerships).
  - Because no link to the loan or savings, sale of long term products are possible.
  - MFI insurance growth limited to client base.
  - Micro-agent could become ordinary agent i.e. sell high value policies over time.

# Alternative 2: Micro-Agents

- Disadvantages:
  - High cost of training agents.
    - Micro-agents transaction costs may increase over time.
    - Direct payment of beneficiary's claim possible in partner-agent **not** in micro-agent model.

# Alternative 3: Micro Insurance Agency / Brokerage.

- How is this different from the micro agent model
- Why design products just for one MFI's clients?
- Serve a whole county and spread the cost of technical assistance and MIS.
- Provide coverage to groups and individuals.
- Promotes new forms of distribution.

# Alternative 3: Micro Insurance Agency / Brokerage

- Advantages:

- Can serve a lot of clients quickly.
- Provide access to a range of products from a range of insurers which fosters competition.
- Reduced cost of providing insurance to the low-cost community by lowering transaction costs.
- Allows investment in MIS which increases client service.
- Scale means that voluntary products can be provided.
- New forms of distribution can be tried at low-risk.
- Risk carrier can be any legal entity.

# Alternative 3: Micro Insurance Agency / Brokerage

- Disadvantages:

- Requires up-front investment in skilled personnel
- Requires investment in MIS & infrastructure
- Requires local supply & demand support

# Alternative 4: Protected Cell Company (PCC)

- Registered insurance company rents out its capital, licence and reinsurance.
- MFI responsible for product features & pricing; retaining both losses & profits.
- Useful in cases where suitable product or service standard is not available.
- Still a form of partner agent model but the other extreme of outsourcing.
- Requires relationship & know-how.

# Alternative 4: Protected Cell Company (PCC)

- Advantages:
  - Provides control over pricing and service standards
  - Can generate income if profits are made
  - Low start-up costs as capital and licence are “rented”
- Disadvantages:
  - Can be very complex few NGO/MFI’s are up to the job
  - May require ability to purchase own reinsurance
  - Can make a loss if pricing is wrong

# Alternative 5: Linked to another good or service

- For example in India (property insurance bundled with cell phones), S. Africa (retrenchment insurance bundled with furniture sales on hire purchase)
- Advantages:
  - Cheap to sell
  - Relatively easy to sell in large numbers
- Disadvantages
  - Expensive to service
  - When compulsory adds to cost of the item
  - Adverse selection and moral hazard difficult to control

## When to use these approaches?

- Approaches not mutually exclusive for an insurer
- Micro agent
- Savings – *when MFI is regulated.*
- Insurance agency – *for large outreach.*
- PCC – *Only when what you need does not already exist.*