
VII Delivery channels and intermediaries

22 New frontiers in microinsurance distribution

Anja Smith, Herman Smit and Doubell Chamberlain

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Achieving scale through cost-effective distribution is one of the biggest challenges for the development of viable, small premium products. To effectively reach as large a client base as possible, the emphasis is increasingly falling on innovative distribution models as alternatives to traditional microinsurance distribution, which typically relies on microfinance institutions (MFIs).

During the last decade, insurance providers and distribution partners have experimented with innovative ways to extend insurance to low-income households. This chapter considers the experiences of 14 sets of microinsurance innovators from Brazil, Colombia, India and South Africa which are using partnerships to distribute insurance through the following channels:¹

- **cash-based retailers**, including supermarkets and clothing retailers, offering simplified personal accident and funeral insurance products;
- **credit-based retailers**, such as furniture and electronic goods stores offering credit life, extended warranties, personal accident and life insurance products;
- **utility and telecommunications companies** offering disability, unemployment, personal accident and, in some cases, household structure insurance; and
- **third-party bill payment providers** offering personal accident and life insurance products.

These models were selected because of their unique and interesting approaches to both the product-development and distribution processes. Case studies on their experiences were produced on the basis of information collected through interviews with insurance providers, their distribution partners and, in some cases, with third-party administrators or brokers. The interview information was supplemented by evidence gathered from company websites and annual reports, as well as available media reports and other research documents. Given that the case studies are public documents, data that may provide a more detailed view on the success

¹ The examples described in this chapter are drawn from the following case studies available at www.cenfri.org: Smit and Smith, 2010a, 2010b; Smith and Smit, 2010a, 2010b, 2010c, 2010d; Smith, Smit and Chamberlain, 2010; Zuluaga, 2010.

and value of different models and products, such as the number of policies sold, claims ratios, policy persistency and profit generated, could not always be included.

This chapter is structured as follows. The first section examines the concept of alternative distribution in the microinsurance context and introduces the case studies. Section 22.2 focuses on the emerging categories of alternative distribution and their respective strengths and weaknesses. The third section considers the key themes and issues emerging from these new distribution models. Section 22.4 concludes with a brief look at the future of microinsurance distribution.

22.1 Rethinking distribution

For the purpose of this study, alternative distribution was loosely defined as voluntary insurance models utilizing partnerships with institutions traditionally not involved in insurance to reach underserved, low-income households. These models typically share the following characteristics:

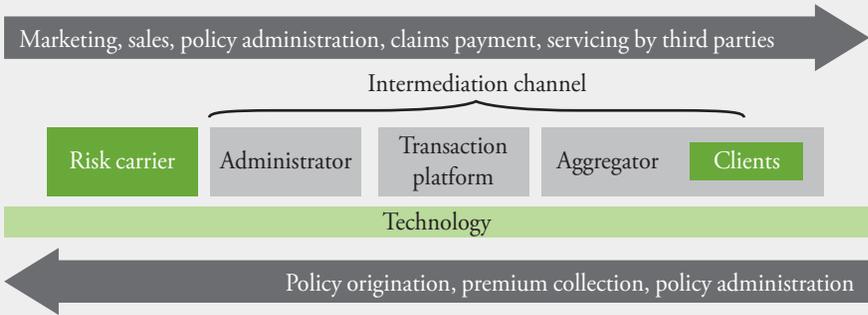
- **Scale through aggregation:** Ability to achieve scale by targeting large client concentrations such as specific non-insurance client groups, including clients of retailers, mobile-phone companies and utility companies.
- **Presence of infrastructure footprint:** When entering into partnerships with organizations with large client concentrations, alternative distribution models typically rely on a community presence that is larger than what an insurance company could achieve on its own. The infrastructure could be physical, such as store buildings, or virtual, such as a mobile-phone network.
- **Transaction platform:** The sales channel typically doubles as a premium-collection platform. One example is adding premiums onto a utility bill.
- **Stand-alone voluntary product:** Models often distribute voluntary products on an “opt-in” rather than “opt-out” basis. Buying insurance is therefore an explicit choice by the customer, rather than an automatic addition to another product or service.
- **Trusted brand:** The majority of models rely on a distribution partnership with a well-trusted brand. Where models do not have this benefit, it has negatively impacted the success of the model.

Distribution is a much wider concept than simply getting the insurance product to the client. In Figure 22.1, distribution refers to all interactions that take place between the underwriter of the risk and the ultimate client, which includes policy origination, premium collection and policy administration, as well as all marketing, sales and claims-payment activities. This process may involve several different entities, including; 1) insurance companies (risk carriers); 2) outsourced administrators; 3) third-party payment providers (who, in some cases, also aggregate clients); and 4) the client

aggregator or distribution partner. In reviewing distribution performance, consideration has to be given to all the different activities and entities in the value chain.²

Figure 22.1

Innovation throughout the distribution process



Source: Bester et al., 2008a; Leach, 2005.

22.1.1 What constitutes success?

The performance of a particular distribution model needs to be assessed from both the client and business perspectives, because what works for the insurer and distribution partner may not work for the client. Table 22.1 sets out some of the perspectives of the business and the client on what can be considered distribution success. The table indicates a lack of alignment between the business and the client perspective regarding the most important aspect of the distribution process. While client acquisition and premium collection can be most important to businesses, the claims processing phase matters most to the client. In the short term, businesses have the greatest incentive to invest and innovate in the sales and premium collection aspects and the least incentive to change and optimize the claims-processing component. However, in the long run, an efficient and convenient servicing and claims-processing system is in the interest of business partners as it will increase customer loyalty and keep clients coming back.

22.1.2 Active or passive sales

The sales aspect of distribution may be the client's first exposure to a particular insurance product. It is thus important that the sales process allow the client to make an informed purchase decision. The 14 distribution examples reviewed for this chapter are characterized by varying levels of interaction with the prospective client during the sales process. Client interaction can be thought of as a continuum, where the one extreme of client interaction during the sales process can be thought of as a "passive" process, whereas the other extreme can be thought of as an "active" process.

² For more information on this see Bester et al., 2008.

Table 22.1

Perspectives on distribution success		
	<i>Business perspective</i>	<i>Client perspective</i>
Product features	<ul style="list-style-type: none"> – Realistic pricing – Ease of administration 	<ul style="list-style-type: none"> – Meets needs – Simplicity
Sales	<p>Most important for the business</p> <ul style="list-style-type: none"> – Achieve take-up – Client retention and persistency 	<ul style="list-style-type: none"> – Informed purchase decisions – Understand value proposition and costs – Understand how to successfully realize value from product (servicing and claims)
Premium collection	<ul style="list-style-type: none"> – Low cost – Integration into insurer management system 	<ul style="list-style-type: none"> – Ease/convenience – Flexibility – Low transaction cost
Servicing and administration	<ul style="list-style-type: none"> – Real-time information and reporting to track performance – Low cost 	<ul style="list-style-type: none"> – Easy access – Ease/convenience – Low transaction cost
Claims processing	<ul style="list-style-type: none"> – Only pay legitimate claims – Cost-effective claims assessment and administration – Risk monitoring and management 	<p>Most important for the client</p> <ul style="list-style-type: none"> – Ability to claim successfully – Easy access – Low transaction cost – Simplicity (not many documents required) – Quick turnaround

In a passive sales approach, a prospective client is provided with no prompting to purchase insurance and no verbal communication on the product. An example is when insurance products are on a shelf at a retailer and clients purchase one along with their groceries without any encouragement by retailer staff. By contrast, active selling involves a representative of the insurer or distribution partner, who informs a client of the benefits of a particular product and may even provide advice regarding which product features are relevant for the customer. For most examples of passive sales, the purchase is initiated by the client, while for active sales the sale is initiated by the intermediary.

The majority of the examples, summarized in Table 22.2, can be plotted somewhere between the two extremes of the scale. The concept of passive versus active sales is important as it has implications for product take-up and distribution costs, especially for complex or lesser-known products, as well as premium persistency and consumer protection. The decision on which sales approach to utilize is often influenced by regulatory considerations. Passive sales processes tend to evolve in countries, such as South Africa, where market-conduct regulation is relatively strict on who can qualify as an intermediary and how insurance products should be sold (*see Chapter 25*). This type of regulation makes it more costly to sell insurance on an active basis.

Summary of insurance business models considered

<i>Underwriter</i>	<i>Distribution partner(s)</i>	<i>Channel classification</i>	<i>Product and distribution description</i>	<i>Take-up</i>	<i>Policy servicing & claims management</i>
Holland Insurance (South Africa)	Pep Stores	Cash-based retailer	Individual and family funeral insurance, launched in March 2006, sold through low-income clothing and small appliance retailer, Pep. The product is sold off-the-shelf in packaging similar to mobile phone starter packs, with no active sales by Pep staff. Monthly premiums are paid in-store in cash.	Significant take-up: 215 000 policies in force (2009).	Third-party administrator responsible for servicing policies and managing claims. Pep is responsible for cash premium collection.
	Take it ezzi	Third-party bill payment providers	Individual and family funeral insurance cover, launched in January 2007, sold through rural vendor network, Take-it-Ezzi. Take-it-Ezzi vendors (typically small informal shop owners) are located in townships (informal settlements) and use wireless General Packet Radio Service (GPRS) technology to facilitate sales of cellular airtime, electricity and insurance. Monthly premiums are paid at vendor in cash.	Low levels of take-up with 1 800 policies in force (2009)	Third-party administrator is responsible for servicing policies and managing claims. Take-it-Ezzi is responsible for client registration and cash premium collections.
Metropolitan Cover2go (South Africa)	Shoprite	Cash-based retailer	Family funeral cover, launched in November 2008, sold through low-income supermarket, Shoprite. The product is bought off-the-shelf on a "no-advice" basis. The product offers a cash-back component if the risk event does not transpire during the 5-year cover period. Monthly premiums are paid in-store in cash.	Low levels of take-up	Shoprite is responsible for registering clients and collecting cash premiums. Cover2go is responsible for policy servicing and claims.
	Wireloop	Third-party bill payment provider	Family funeral product sold through rural vendor network, Wireloop, with the use of GPRS-enabled point-of-sales terminals (POS). The products are sold on a passive basis.	Low levels of take-up: less than 1 000 policies sold (2010).	Wireloop is responsible for registering clients and collecting cash premiums. Cover2go is responsible for policy servicing and claims.
	Accessible through all South African mobile-phone service providers.	Third-party bill payment provider	Personal accident insurance product, launched as pilot during Easter of 2007, targeted at minibus taxi passengers. The product is advertised on billboards and fliers. Individuals obtain the cover by sending an SMS to a premium-rated short-code that will deduct the insurance premium from the available airtime. The conversion of airtime to cash is facilitated by a wireless access service provider (WASP).	Low levels of take-up	WASP is responsible for premiums collection. Cover2go is responsible for policy servicing and claims.
Old Mutual (South Africa)	Shoprite	Cash-based retailer	Family funeral and accidental death cover, launched in November 2007. Product is sold off-the-shelf on a no-advice basis at low-income retailer, Shoprite. The product is designed for seasonal workers and allows flexible premium payments, up to a maximum of 6 months between premium payments. Premiums are paid in cash in-store.	Low levels of take-up	Old Mutual is responsible for servicing policies and managing claims. Shoprite is responsible for registering clients and cash premium collection.
MAPFRE (Colombia)	CONDENSA	Utility and telecommunications companies	Separate life, personal accident, funeral, home and vehicle insurance, first offering launched in 2001, sold through electricity provider, Codensa. The product is sold through multiple distribution channels – including an out-bound call centre, face-to-face sales and mass mailing – using Codensa's bill payment system to collect premiums.	Significant take-up: 300 000 policies sold (2008)	Product administration and servicing is performed by both parties. Claims directed to Codensa call centre. Mapfre manages operational aspects of claims management.

Alico Chartis (Colombia)	gasNATURAL	Utility and telecommunications companies	Personal accident, cancer, critical illness, home and small and medium-sized business cover sold through gas utility company, gasNatural. The product, launched in 2003, sold via multiple call centres, mass mailings and face-to-face sales, using the gasNatural bill payment system to collect premiums.	Significant take-up: 783 224 Chartis policies and 59 892 Alico policies in force (2009)	Administration is performed by Alico and Chartis. Claims can be submitted either to gasNatural call centres or Alico and Chartis directly.
Colseguros (Colombia)	Carrefour	Cash-based retailer	Personal accident insurance sold at international retailer Carrefour's counters since 2007. The product is offered to customers of Carrefour after they have concluded a purchase transaction. The insurance premium is equivalent to the change the client receives from their grocery purchase, with cover provided in proportion to the premium.	Significant take-up: 2.8 million policies sold (2008)	Premium collection and registration conducted in-store by Carrefour. Policies serviced by ColSeguros. Claims handled by Colseguros.
MAPFRE (Brazil)	Casas BAHIA	Credit-based retailer	Life, unemployment and personal accident insurance sold through low-cost electronic appliance store, Casas Bahia. The first product offering was launched in August 2004. Additional policy benefits include a lottery ticket and pharmaceutical discounts. Insurance is offered and explained to customers by Casas Bahia sales staff during the appliance sales process.	Significant take-up	Joint policy servicing and administration. Casas Bahia provides on-the-ground after sales support through their sales agents and assists Mapfre in back-office policy administration. Claims handled by Casas Bahia.
QBE (Brazil)	Vivo	Utility and telecommunications companies	Insurance against the theft of mobile phones – launched in 2006 – offered through the retail outlets of telecommunications company Vivo. The insurance product is presented to Vivo customers during the purchase of a mobile phone.	Significant take-up: 300 000 policies sold to date (2010)	Joint policy servicing and administration. Claims handled by Mapfre.
ACE (Brazil)	Brasil Telecom	Utility and telecommunications companies	Individual or family hospital indemnity plan – launched in 2006 – sold to clients of fixed-line operator Brasil Telecom through an out-bound call centre. The Brasil Telecom bill payment system is used to collect insurance premiums.	Significant take-up: 600 000 policies sold to date (2009)	Policy servicing, administration and claims are predominantly handled by the broker, Aon Affinity.
ACE (Brazil)	AES Eletropaulo	Utility and telecommunications companies	Bundled insurance offering providing household structure, personal accident and life insurance policies. The product was launched in 1999 and is offered to AES Eletropaulo clients through a mail offering and premiums are collected using AES Eletropaulo's billing system.	Significant take-up	Policy servicing, administration and claims are predominantly handled by the broker, Aon Affinity.
Max New York Life (India)	Max Vijay Formal and informal retailers, MFIs, coop banks, NGOs etc	Multiple channels	Max Vijay is a savings-linked life insurance policy launched in 2008 and sold through multiple sales channels that involve both push (active) and pull channels (passive channels, e.g. retailers). These sales and premium collection channels include the use of rural vendors and mobile GPRS devices. The product is structured as a flexible premium savings product with an initial savings deposit required, which can then be topped up from as little as 10 rupees (US\$0.21).	Moderate take-up: 90 000 policies sold (2010)	Policy servicing, claims and administration are handled by Max New York Life.

22.2 Comparing the distribution channels

When considering the examples in Table 22.2, four categories of distribution channel emerge: 1) cash-based retailers; 2) credit-based retailers; 3) utility and telecommunications companies; and 4) third-party bill payment providers. These categories reflect the distribution partner's primary business and the nature of their interactions with clients. Similarities in the types of products sold, sales interaction, and the premium collection and claims processes for each type of distribution channel are summarized in Table 22.3. An analysis of these four categories provides a number of useful insights about their relative effectiveness.

Table 22.3

Characteristics of the distribution channels

	<i>Products</i>	<i>Sales</i>	<i>Premium collection</i>	<i>Claims</i>
1 Cash-based retailers e.g. supermarkets and clothing retailers	Simplified personal accident and life (funeral) insurance policies	Limited, un-incentivized sales interaction between retailer staff and client	Cash premiums paid in-store, with optional debit order payment available in some cases	Claims directed to insurance company rather than retailer
2 Credit-based retailers e.g. furniture and white goods store	Credit life, extended warranties, personal accident and life insurance	Active, incentivized, face-to-face sales by retailer sales staff; passive sales in South Africa due to market conduct regulation	Bundled premium collection and credit repayments	Claims facilitated in-store
3 Utility and telecommunications companies e.g. electricity, gas and fixed-line telecommunications companies	Disability, unemployment, personal accident and, in some cases, household structure insurance	Multiple sales channels including mail, out-bound call centres and face-to-face sales	Premiums are bundled with client's utility or phone bill and collected using existing bill payment system	Claims directed to the insurance company; in some cases, benefit payment is made directly to client's utility or telephone account
4 Third-party bill payment providers including wireless access services providers (WASPs)	Personal accident and life insurance	Limited (un-incentivized), sales interaction between bill payment operator's employees and client	Cash or electronic collection point	Claims are made directly to insurance company

A key difference between these channels is the type of sales practices that they employ, which has implications for the product that they can offer, the volume of customers that they serve, and the value that they can provide to low-income households.

Staff members of cash-based retailers generally do not actively engage with customers or “push” merchandise during the sales transaction, making it difficult to enhance the performance of the existing sales force. The lack of active selling by retailer staff has led cash retailers to rely primarily on passive or “off-the-shelf” sales. As a result, their product range is limited to simple, group-underwritten personal accident and funeral policies (*see Chapter 10*).

Maintaining the persistency of their policies poses a challenge for cash-based retailers, because the retailer often does not have an automatic premium-collec-

tion mechanism, so that clients must come to the store to renew. Consequently, the retailer has to position its value offering and its brand to attract customers afresh for each transaction. Any insurance product should add to the value proposition the store uses to motivate clients to come back for repeat purchases. Cash-based retailers therefore have to amend their business models or implement innovative mechanisms to overcome these challenges.

Credit-based retailers often have a dedicated sales force in-store for the sale of credit-linked merchandise. The sales force provides advice, structures credit repayment agreements and offers the client insurance. Insurance is actively sold and is usually linked to the credit agreement or the goods sold, including credit life and extended warranties. In most cases, the term of the policy corresponds to the credit repayment period. The sales force in credit-based retailers is also responsible for follow-up advice and assisting clients with claims.

Distribution through credit-based retailers is a good business model, but it offers questionable value to clients. These channels typically achieve significant take-up due to incentivized sales, low policy lapse rates because of the contractual obligation between the retailer and client, and the presence of an existing premium collection system. Because of the retailer's familiarity with financial services, it often has the management information systems and the staff to assume responsibility for policy administration and client servicing. However, given the basic qualification criteria for credit, it means that the lower-income clients are often excluded. Furthermore, low claims ratios on these credit-linked products suggests poor value for the client. An exception are stand-alone insurance policies that are not linked to the purchase and/or financing of goods, such as the policies sold through the Brazilian credit retailer, Casas Bahia, or stand-alone policies sold at the Mexican furniture and white goods retailer, Elektra.

Utility and telecommunications companies generally have detailed information on their extensive client base that can be used to design appropriately priced policies and targeted marketing campaigns. Insurance sold through these companies is often linked to the primary relationship between the client and the service provider (e.g. electricity or phone service), and covers the client's contractual obligation to the provider in the case of death, illness, unemployment and/or disability. These channels experience significant take-up of insurance, particularly if products are actively sold by an agency sales force. However, they suffer from high distribution costs attributable to the active sales effort, the required commission payments to agents, and the participation in the value chain of many entities that all have to be remunerated.

Third-party bill payment service providers have been set up in many countries to allow organizations (e.g. utility companies, telephone companies and municipalities) to outsource the collection of payments, often through a network

of retailers. This infrastructure can be used for other purposes as well, such as selling insurance. This channel tends to offer simplified life and personal accident insurance, although product complexity can be increased when payments systems are operated by individuals, compared to other systems with no human interaction, such as mobile-phone-based distribution using a short message service (SMS) sent to a premium-rated short code.³

Third-party payment providers have had limited success in achieving scale. This is mainly due to the absence of a trusted brand and reliance on passive sales practices. In addition, the use of premium-rated short codes for mobile-phone-based distribution is an expensive premium-collection method, as the wireless access services provider (WASP) that converts airtime to hard currency often requires a substantial commission.

Table 22.4 summarizes the main strengths and weaknesses of these distribution channels.

Table 22.4

Strengths and weaknesses of distribution channels

	<i>Strengths</i>	<i>Weaknesses</i>
1 Cash-based retailers	<ul style="list-style-type: none"> – Offers easy, low-cost access to existing customer base – Retailer has good understanding of customer needs – Motivated to offer higher-value products to maintain/strengthen brand 	<ul style="list-style-type: none"> – Cash-based premium collection may suffer from higher initial lapse rates – Not oriented towards provision of financial services
2 Credit-based retailers	<ul style="list-style-type: none"> – High levels of persistency due to account-based premium collection – Sales point can double as a service and claims desk – Existing client information available (through credit repayment) to support product design and distribution approach – Familiar with provision of financial services 	<ul style="list-style-type: none"> – Credit-linked insurance sales, even when voluntary, often deliver low value to clients – Sales of insurance products not linked to credit risk may not be viewed as relevant to core business – Insurance cover period linked to credit repayment period
3 Utility and telecommunications companies	<ul style="list-style-type: none"> – Existing client information assists in product design and targeted insurance sales – Efficient payment collection due to presence of account relationship with client 	<ul style="list-style-type: none"> – Low claims rates on personal accident products offered through these channels suggest low-value proposition to clients – Extensive involvement by broker/administrator, distribution channel and third-party operators can increase management costs
4 Third-party bill payment providers	<ul style="list-style-type: none"> – Large distribution network with extensive formal and informal outreach – Facilitates use of e-money for premium payments 	<ul style="list-style-type: none"> – Low take-up due to passive sales – Premium collection using airtime as currency is very expensive – Absence of trusted brand at sales point – Insurance company has little control over informal third-party bill payment providers

³ Premium-rated short codes are codes, rather than phone numbers, to which an SMS can be sent. The sender is charged a higher amount than the standard SMS rate. It is commonly used to pay for goods and services, enter competitions or make donations.

22.3 Emerging themes

This section examines the most prominent recurring themes observed in the various distribution channels.

22.3.1 Reorienting the focus of innovation

The experiences highlighted in this chapter illustrate that innovation in the distribution process has mainly focused on the sales and premium collection aspects, rather than servicing and claims processing. This is unfortunate, as the claims process is where product value is demonstrated to clients and is therefore an important aspect of cultivating a microinsurance market.

Although some of the innovative channels use detailed client information in designing products, they still have complex documentation requirements for claims, which are generally not processed at the same convenient place where the product is sold, and processing times take more than a few days. Only one of the models reviewed, the partnership between Mapfre and furniture and white goods retailer Casas Bahia, allows for the processing of claims in-store, the place where the policy was purchased.

To offer value to clients, distribution channels may want to consider becoming “one-stop shops”, to sell and renew policies, collect premiums, and process claims from one location. The channels most suited are those where there is a central service point close to the client, where the distribution channel also has electronic access to policy administration systems. The initial sales point could be used for quick claims payment if the distribution channel staff have basic information technology proficiency and are well trained. Given the strengths and weaknesses of distribution channels shown in Table 22.4, the credit-based retailer seems best suited for this full-service approach.

An important step towards providing greater value is the adaptations made by insurers and their distribution channels to their clients’ ability to pay, in both absolute value and payment frequency. South African retailer Shoprite and underwriter Old Mutual offer a product with flexible premium payment periods, between one and six months. In Colombia, Carrefour allows individuals to take out varying levels of cover, determined by their available change when they check out. In addition, Max Vijay’s savings-linked life insurance policy provides individuals with continuous life cover without the need to contribute a monthly premium. After the initial payment at policy inception, the insurance policy will not lapse for the duration of the savings agreement. Max Vijay clients are allowed to top up their savings in small instalments as and when they have funds available.

Despite this sensitivity to the clients’ ability to pay, the lower-income market has not yet been effectively served by these alternative channels. For the products

under consideration, those serving slightly higher-income groups have experienced higher take-up. In South Africa, Take-it-Eezi, which has low take-up rates, targets a slightly poorer market segment than the more successful Pep and Shoprite examples. The geographical location of these outlets and the nature of their respective target markets affects product take-up, as slightly higher-income clients have greater exposure to insurance. Similarly, the successful take-up of insurance through Brazilian telecommunications and Brazilian and Colombian utility companies is partly attributed to their mixed clientele, which includes less-poor households.

The intangible nature of insurance sometimes makes it difficult to communicate its value to the low-income market. To address this issue, some insurers have enhanced the tangibility of the product's benefits. This marketing style takes two major forms:

- 1) **Providing auxiliary benefits**, such as Cover2go's cashback funeral policy which returns premiums after five years in the absence of claims, and access to emergency services assistance (such as plumbing and electrical) with insurance policies bought from the electricity provider AES Electropaulo. In Brazil, *capitalization* is another auxiliary benefit attached to most microinsurance policies, where policyholders have a chance to win a prize in a lottery draw.
- 2) **Tangible (non-cash) payouts** were observed in several examples. AES Electropaulo provides a monthly food basket for the beneficiaries of the deceased for 12 months. Vivo telecoms and Mapfre replace the policyholder's mobile phone with another phone. The Codensa funeral insurance policy pays out in the form of a funeral service, without the option of a cash payout. In South Africa, individuals receive a discount on a funeral with the purchase of a funeral policy at Shoprite stores.

22.3.2 Evolution of products and channels

The nature of the relationship between the distribution partner and insurance company evolves over time as the channel starts to realize the benefits of adding insurance to its existing range of services. Over time, this means that the channel will have an incentive to play a larger role in product development. This is particularly evident in Colombia, where Codensa, after having sold Mapfre-underwritten insurance products for a few years, engaged in the development of new products to better meet the needs of its clients. In addition, distribution partners have an incentive to be more committed because of the potential reputational risk to their brands if they do not provide good products to their clients. Some of the more successful examples are ones where the distribution partners viewed the provision of insurance as an explicit client-retention strategy.

Products offered by the partners tend to evolve in two ways:

- adjustments to the price, cover and exclusions to improve value or manage claims ratios; and
- the introduction of insurance products that are unrelated to the primary product offering of the distribution channel.

Examples of both these cases are found in Brazil where Casas Bahia adjusted its insurance offering eight times over a five-year period and AES Electropaulo moved from selling only financial protection policies (to protect itself from default by clients in the event of disability or unemployment) to household content insurance. An example of the product adjustment process is provided by the Pep funeral insurance product underwritten by Hollard. The product was changed and re-launched after an unexpectedly high mortality rate was experienced in an unfamiliar segment of the low-income market.

The insurer, and in some cases the broker or administrator, will adjust the distribution process once it has accumulated sufficient data on take-up and lapse rates, and the costs associated with a specific channel. This usually involves adding more, or different, distribution channels, while scaling back on others. This assessment period before changes are made typically takes six to 12 months. For example, Old Mutual initially distributed a funeral insurance policy through the Shoprite Money Market Counter and later piloted distribution through other channels, such as rural vendors, using third-party payment providers to collect premiums.

Many of the cases reviewed in this chapter involve large multinationals, creating the potential for an evolution to occur across borders (*see Chapter 19*). In the case of Aon Affinity, a multinational brokerage firm, certain microinsurance lessons were learnt in Brazil and exported to the rest of Latin America. Multi-national underwriters, such as Hollard, Mapfre and Allianz trading as ColSeguros in Colombia, have multiple microinsurance products around the world. Lastly, French retailer Carrefour offers insurance products through its stores in many countries, including Colombia and Thailand.

22.3.3 Impact of regulation

A recurring theme in these case studies is the impact of regulation on the distribution process. Regulation affects all aspects of distribution, but particularly product development (e.g. type of cover and development of auxiliary benefits) and sales, including the nature of the distribution partnerships and sales interactions with clients. Regulatory hurdles often make it difficult for insurance companies and their distribution channels to achieve a balanced distribution

approach where both the business and client's needs receive equal emphasis (*see Chapter 25*).

The relationship between the insurance company and the distribution partner is affected by broker regulation, commission-specific regulation, labour legislation and market conduct regulation. For example:

- **Restrictive broker regulation**, as observed in Brazil, where a combination of broker power and labour law has led to distribution of insurance without the involvement of a broker being discouraged, thereby increasing intermediation costs.
- **Minimum education levels for brokers and agents** (market conduct regulation) preclude potential agents from getting involved in insurance distribution and, consequently, increase sales costs. This impact is particularly evident in the South African cases. In South Africa, minimum education requirements for brokers and agents were set at a high level and have catalysed the introduction of passive distribution models that do not provide any face-to-face disclosure or explanation of the product.
- **Non-insurance-specific regulation** can also reduce the willingness of insurance companies to serve the low-income market. For example, in Brazil labour legislation causes insurers to place employment relationships at arm's length. Though insurers are technically allowed to use tied agents, by conducting direct rather than broker sales, they are reluctant to do so due to the collective bargaining conditions in the financial sector, which makes it expensive to use employees as sales people.

22.3.4 Sales practices

While most passive distribution models in South Africa have no face-to-face explanation of the insurance products due to restrictive intermediation regulation, the examples that are mostly passive in the other countries rely on some form of verbal interaction at the point of sale. This includes an insurance counter in a supermarket staffed by someone who can provide information on the products or an in-store insurance agent at Carrefour. In the case of purely passive models, clients rely on the underwriter's call centre for the provision of product information post-purchase and also have to contact the call centre for any service or claims assistance. In these models, the servicing and claims interaction is removed from the point of purchase.

Some client aggregators, such as Codensa, use multiple distribution strategies, and passive distribution could be one approach. For example, the company provides information on insurance products with its utility bill. People who are interested can telephone the call centre or complete a form requesting that someone contact them. In addition, Codensa actively sells insurance to its client base through an out-bound call centre and an active sales force.

Some distribution models use available client information to effectively and efficiently target sales efforts to improve take-up. This innovative use of information takes place in at least two ways:

- **Using distribution partners' client databases to tailor products.** An example of this is Aon Affinity's use of its utility and telecommunications distribution partners' client information databases in Brazil. The information is used to assess clients' insurance needs, and to develop policies that are appropriate for the needs of the specific target market.
- **Focusing sales efforts.** Mapfre in Colombia and QBE in Brazil use the distribution partners' client information to inform and efficiently target sales strategies, such as out-bound call centres, direct mail, door-to-door sales agents, or a combination of these, at clients whose needs most closely match the benefits offered by the insurance product.

Experimentation with multiple sales channels allows insurance companies to identify the most effective channel. For example, Max New York Life found that traditional "push" (or active sales) channels experienced higher take-up levels, but had the drawback of higher policy initiation costs as more time is spent interacting with the client. "Pull" (or non-active/passive sales) channels achieved some success as premium collection channels, but had significantly lower take-up rates for initial sales than push channels. In terms of net benefit, their experience indicated that "push" channels offer the better option for initial product sales, while "pull" channels are the more efficient approach for top-up payments after the initial product purchase.⁴

Incentives for sales staff are critical to the successful take-up of microinsurance products. This is demonstrated by the low level of funeral insurance sales through the rural vendor network Wiredloop, where sales staff are often not directly remunerated, compared to the success of Casas Bahia, where reliable and significant sales commissions contribute a substantial portion of the staff's overall remuneration.

The high degree of trust that the market has in the distribution channel and its sales staff, however, could mask poor value insurance products. In Brazil and Colombia, for example, personal accident insurance tends to have low claims ratios, often below 15 per cent of gross premiums. Yet the market is buying it because they trust the distribution partner.

⁴ As described in Chapter 8, the Max Vijay product is a savings product that allows policyholders to add to their savings policy when they have funds available. These additional contributions are referred to as "top-ups".

The question of trust relative to value is also highlighted by experience in South Africa, where funeral insurance sold by different channels has different levels of success. The rural vendor Take-it-Eezi has had considerably less take-up than the well-trusted, low-cost clothing and small appliance store Pep. Whilst Pep has managed to accumulate a high level of trust in the low-income market, Take-it-Eezi is a less well-known brand used to network a number of informal rural vendors around a third-party payment system.⁵ This may also be a direct consequence of the differing nature of the target markets of the two distribution partners – Pep tends to serve a slightly higher-income market than Take-it-Eezi.

22.3.5 Partnership management

“Microinsurance belongs to the distribution channel” has proved true in many of the cases where retailers and utility and telecommunications companies assert their dominance and power in all aspects of the distribution process. The increased bargaining power of distribution channels relative to the insurance company enables channels to negotiate a higher proportion of the premium as remuneration than traditional insurance distributors would be able to do.

A critical theme emerging in the distribution story is the necessity to align the incentives of the distribution channel with those of the insurance company. Aon Affinity in Brazil was able to do this by creating products that cover the liability (e.g. electricity or telephone bill or finance repayment) of the distribution partner should its client be affected by an insured event (e.g. unemployment, personal accident or disability). Furthermore, it remunerated the distribution channel for providing client information and collecting premiums.

The remuneration relationship between the insurer and distribution partner can take different forms. In some cases, as with Hollard’s relationship with Pep, the remuneration comes in the form of profit-sharing through a joint venture, in addition to the commission received by Pep. In other cases, the distribution partner receives only a fixed commission. The remuneration model is affected by the level of equity attached to the distribution partners’ brand – the higher the level of trust and recognition attached to the brand, the greater the bargaining power of the distribution channel.

Well-trusted distribution channels face the greatest reputational risk and therefore also choose to be involved in the product development and revision process because they know their clients and want to ensure that they provide them with value. Furthermore, distribution partners who have greater levels of

⁵ It should, however, be noted that the funeral insurance policies underwritten by Hollard and distributed through Take-it-Eezi and Pep do not suffer from the same low claims ratios as noted in Brazil and Colombia.

existing client information, such as utility companies and credit retailers, want to use this information in an optimal way and therefore also get involved in the product-development and administration process.

Building a successful distribution channel requires significant investment, by both the insurer and distribution partner, in human capital and insurance-specific information technology (IT) platforms. For example, Mapfre had to train Casas Bahia sales staff to sell insurance, and it improved the IT system to facilitate sales. Casas Bahia manages the client database, and only passes data on to Mapfre for reporting purposes and to facilitate claims management. Other examples of high investment can be found in Colombia, India and South Africa, where utilities, retailers and telecommunications companies sold insurance, often for the first time, so that the insurers also had to train staff and put in place improved IT systems.

22.4 Moving forward

The current wave of microinsurance innovation is characterized by insurance companies working in partnership with non-traditional distribution channels to reach their unserved or under-insured client bases. Distribution innovation has occurred mainly in product development, sales and premium collection, with less emphasis on the servicing, administration and claims aspects.

Given the number of entities involved in these partnerships, the distribution process has become more complex. Where traditionally insurance is distributed by an agent or broker who deals directly with the insurer, many of the examples reviewed in this chapter include a broker that facilitated the relationship between the insurer and distribution partner, third-party administrators and, in some cases, a payment platform. All these entities have to be remunerated. The fact that many entities are involved has, in some cases, led to an increase in distribution costs. The problem is exacerbated if the distribution channels have a high degree of client trust and are able to negotiate higher commission levels.

What does this wave of innovation mean for insurers and their distribution partners?

- **Greater efficiency is required in distribution.** Going forward, the achievement of efficiency in microinsurance is likely to require more focus on lowering distribution costs. This cost control may require concerted effort to limit the number of entities in the value chain, which is likely to have interesting implications for the way insurance companies structure their partnerships with distribution entities. Insurers and their distribution partners will have to carefully consider their commission levels and profit-sharing arrangements.

- **Partners’ commitment to client value matters.** Distribution partners are increasingly becoming involved in product development. In most cases, this is in the interest of the client where the distribution partner is trying to limit its exposure to reputation risk by ensuring it provides good value. Rather than simply increasing the prices of its funeral products, retailer Pep and Hollard Insurance, for example, developed and re-launched a new product when they realized they had significantly underestimated mortality rates. This was done to ensure that Pep’s brand did not suffer damage. However, there are also cases where the distribution partner does not have a strong interest in protecting its brand and its closer involvement in the insurance process may simply be to maximize its income. Insurers need to think carefully about whom they choose as partners and whether these entities have the interests of clients at heart.
- **Imagine distributors as “one-stop shops”.** To continue offering clients value, alternative distribution models will have to turn the servicing and claims processing components of distribution on their heads. Insurers will have to start to use distribution partners as “one-stop shops” that not only sell policies and collect premiums, but also allow clients to make changes to their policies and become the point where claims are paid out. Not all distribution channels reviewed in this chapter will be able to do so, and it is likely that channels that can more comprehensively serve clients will be more successful than others.

What can we expect of the next wave of microinsurance innovation? Given the experiences with the current wave, it can be expected that regulators will start to scrutinize the issue of value offered to clients. While low claims rates may be a fact of life in the early stages of product and business model development, this should improve over time. An improvement in claims rates may require interesting and innovative approaches to informing clients about product features and exclusions, continuous communication with clients to ensure they are aware that they own a microinsurance product and, lastly, simple and efficient claims processes. The last word rests with the client, and if insurance companies are unable to offer value where and when it is most needed, the success of microinsurance will be threatened. The initial success associated with acquiring new microinsurance clients through alternative distribution channels will not be sustained if insurers and their distribution channels are unable to innovate on claims processing and servicing. Such innovations from microinsurance can provide lessons across all market segments of the insurance business.

Microinsurance intermediaries

Alex Bernhardt, Roland Steinmann and Michael J. McCord

The authors appreciate the helpful inputs from the reviewers, who include Sabrina Regent (PlaNer Guarantee), John Pott (formerly with AKAM), Richard Lefley (MicroEnsure) and Jose Luis Contreras (Aon Bolivia).

Insurers face a multitude of challenges as they move down-market (*see Chapter 19*). Among them is the lack of insurance expertise amongst a growing diversity of potential delivery channels (*Chapter 22*). Microinsurance intermediaries have emerged to bring together these two integral groups.

For the purposes of this chapter, microinsurance intermediaries are any organization that facilitates, in exchange for a fee, the transfer of microinsurance risk from an original low-income client – usually a group of poor persons, often represented by a delivery channel such as a microfinance institution (MFI), cooperative or other purchasing group – to an insurance company. The microinsurance landscape is increasingly being occupied by such organizations fulfilling vital functions in the development of microinsurance. Microinsurance intermediaries can take a range of institutional forms, from commercial multinational corporations to small non-governmental organizations (NGOs). Not only do these intermediaries serve as “market makers”, using their networks and expertise to develop products and risk transfer value chains from scratch, but they also provide a variety of administrative services to supplement and improve the unique aspects of the risk transfer process in low-income markets.

This chapter begins by defining the role of insurance intermediaries and compares and contrasts traditional approaches with intermediaries acting in the low-income market. The second section describes the results achieved by three specialized microinsurance intermediaries – MicroEnsure, the First MicroInsurance Agency (FMiA) Pakistan and Planer Guarantee. The chapter then considers the preliminary experiences of commercial intermediaries venturing into microinsurance, including Aon, Marsh and Guy Carpenter. The chapter concludes with an analysis of the value proposition of intermediaries and insights into the challenges that lie ahead.

23.1 Insurance intermediation: Conventional vs. micro

23.1.1 Conventional intermediaries

In insurance markets, there are two types of intermediaries: brokers and agents. The key difference between the two is representation. Brokers represent policyholders and purchase insurance on their behalf. They often negotiate with a variety of insurers to take advantage of favourable market conditions and underwriter competition. Agents, on the other hand, represent insurers. Depending on the regulations in the country, they can represent one or several insurers. In the Philippines, for example, agents can represent one life insurer but up to seven general insurers. Agents commonly focus on a single geographical area or line of business. Agents and brokers can be individuals, small firms or large companies, again depending on local regulations.

In some jurisdictions, notably India, regulatory allowances enable aggregators, such as MFIs and similar institutions, which have direct contact with the poor, to distribute policies via their field staff without obtaining licences for every employee who sells insurance. Regulatory allowances such as these are essential for microinsurance in jurisdictions where the direct “partner-agent model” prevails. It would be impractical for MFIs to require all of their staff to obtain individual insurance licences. In Viet Nam, where each seller of microinsurance must be licensed, the Agriculture Bank Insurance Company spent over US\$1 million and several months training thousands of local agents.

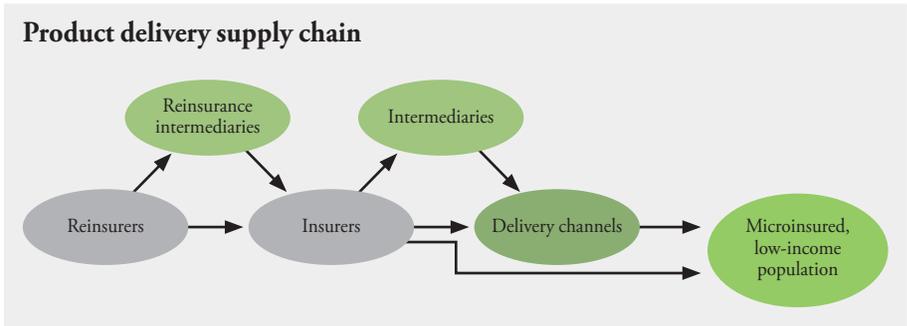
In developed insurance markets, intermediaries are distinguishable by their position in the supply chain. Many focus on retail distribution, delivering policies directly to consumers (individuals or businesses). Other intermediaries work at the wholesale level, distributing policies through retail production sources. Such wholesalers, referred to as managing general agents (MGAs¹), serve as crucial market aggregators and often fulfil essential policy-servicing functions as well. MGAs act as an extension of an insurance company fulfilling vital programme administration functions such as underwriting, loss adjustment and risk control. MGAs are often able to command higher commissions than other agents due to their higher degree of integration in the process, although they are usually subject to supervision and approval by their insurance company partners for underwriting and claims processes.

MGAs often specialize in niche or special classes of insurance. These wholesale intermediaries provide consumers with useful information on and access to products that would otherwise be difficult to offer. They enable insurers to benefit

¹ These wholesale agents are also known by a variety of other names, including managing general underwriters, underwriting management agencies, programme administrators and general agents.

from economies of scale, mitigate underwriting difficulties and help in risk management. Microinsurance intermediaries covered in this chapter share many characteristics of MGAs in developed markets because of their specific focus, their ability to serve as aggregators of policies from many underlying sources and their positioning in the microinsurance supply chain, which is one step removed from the ultimate consumer (see Figure 23.1). Unlike wholesalers however, microinsurance intermediaries do not distribute their products through traditional retail agents that have been formed for the explicit and exclusive function of insurance distribution.

Figure 23.1



23.1.2 Delivery channels

Microinsurance largely depends on the efforts of delivery channels. Delivery channels typically have direct and regular access to poor consumers and work with insurers to distribute microinsurance products to them. While some insurance companies work with their own captive agents to reach the poor directly, such arrangements are uncommon. A more frequent approach is the partner-agent model, whereby insurers work with delivery channels to sell products to their clients. Products are thus delivered by the field staff of an NGO, credit officers of an MFI, cashiers at a retail outlet, or church officials where microinsurance is offered. It is expected that the delivery channel will act as an intermediary, representing its clients, identifying appropriate products, sourcing the insurer and servicing the client.

In practice, however, many delivery channels have not fulfilled this broader function effectively. Their insurance skills are often limited and their motivation confused. Their aim is either to provide value for their clients or to maximize the growth of their balance sheets. Thus, there could be a place for broker intervention in microinsurance to bring together insurers and delivery channels, if the broker:

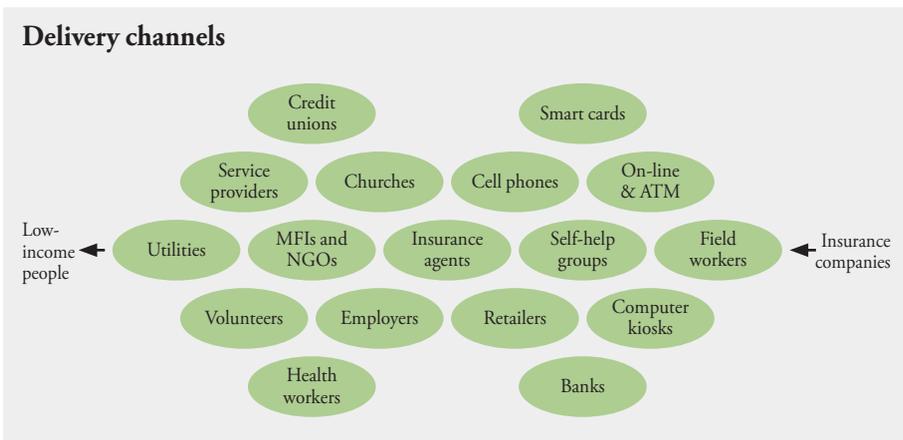
- has a greater interest in providing quality and value to low-income markets than current delivery channels;
- is skilled at working with the low-income market;
- can provide comprehensive back-office services; and
- can do all this at a more competitive price than insurers selling directly.

For insurers using the partner-agent model, MFIs are the “low-hanging fruit” in the microinsurance delivery channel landscape and could thus be characterized as the most obvious direct avenue of microinsurance product distribution. However, MFIs are limited in scope. Collectively, MFIs reach only 190 million borrowers worldwide (Reed, 2011). This is less than half of the current microinsurance outreach (*see Chapter 1*) and a fraction of the global potential microinsurance market.

Discovering, unlocking or building alternative avenues of direct access to the poor is crucial to the expansion of the microinsurance market. As illustrated in Figure 23.2, a host of organizations and methods could be used to access the low-income market, but the development of these channels can be arduous and complicated work. With the exception of MFIs, few potential delivery channels have existing financial relationships with the poor, and the financial literacy of the management of potential delivery channels can be limited. Intermediaries can therefore play an important role in facilitating the delivery channel development process.

Insurers and delivery channels often have trouble with communication. The two parties have very different motivations, systems, understanding of client needs, and knowledge of insurance concepts. However, they agree that neither wants to do much work beyond what is necessary to sell the product in a straightforward way. Here, an intermediary’s knowledge of the low-income market and attendant resources can play an important role by bridging the knowledge and capacity gap between microinsurance clients and insurers. While microinsurance intermediaries have additional capabilities, this bridging function is a significant component of their value proposition.

Figure 23.2



23.1.3 **Microinsurance intermediation**

Selling and managing microinsurance can require a significantly different approach for intermediaries. In traditional markets, products are well defined, clients understand insurance concepts, policy volumes are limited and operational processes are well established. The peculiarities of microinsurance obscure otherwise comfortable aspects of insurance product delivery behind a fog of ambiguity.

To serve the low-income market, a new paradigm is needed because empirical understanding of potential clients and their demands is limited. Addressing this experience vacuum often requires extensive research, product development, market education and delivery channel staff training to prepare for managing huge volumes of transactions arising from new products with different and limited controls. This all takes time, requires personnel and can be costly. Even if the intermediary does this additional work, its fee or commission on a per-policy basis is tiny. More work and less income per policy makes the business case questionable and certainly requires a very skilled manager. Once these issues are considered, it is not surprising that only a few traditional brokers have entered this market.

Table 23.1 identifies some of the key differences between traditional and microinsurance intermediation. Traditional intermediaries are fundamentally matchmakers, matching demand with existing supply. Microinsurance intermediaries, however, must often be market makers, identifying unmet needs, developing products and overseeing their delivery through hands-on training of delivery channel staff, and adapting or building systems to manage policy and claims administration. The role of a market maker in microinsurance is much more significant than that of simply a matchmaker.

To make a market, every component of a microinsurance value chain, including identification of the target client base and delivery partner, product development, client education and motivating insurers to engage in this new business segment, has to be built. To do so effectively, market makers must have a deep understanding of poor households and the related constraints and demands. Hence, microinsurance intermediaries are commonly not mandated by a customer collective, a delivery channel or by an insurer, but act on their own to build a market and economic base to subsist upon.

Table 23.1

Key differences between insurance and microinsurance intermediation

<i>Key activity</i>	<i>Traditional intermediary</i>	<i>Microinsurance intermediary</i>
Sales knowledge required	Strong understanding of traditional insurance products and the needs and demands of the middle- and upper-income markets.	Clear understanding of the needs and demands of the low-income market as well as an understanding of what is required to get them to buy insurance.
Market demand study	Demand is generally gauged passively in response to clients' direct requests.	Market research of varying intensities performed to understand demand, which is often latent.
Marketing and education	Typically, brochures and basic presentations are sufficient for a market that already understands insurance.	Typically requires innovative approaches such as comic books, microinsurance "classes", role playing/acting and generally marketing with a focus on consumer education.
Product development	Since most basic products are well known and understood, product development from scratch rarely takes place; even new products tend to benefit from a wealth of underlying data, which can be used for pricing and policy design.	Since the products are typically completely new to a market and underlying data are scarce, there is a need for product reformulation, pilot testing and significant monitoring to ensure product success.
Training delivery channel staff	Direct sales are common; when retail "delivery channels" (typically licensed agents or brokers) are used, very little training is required.	Significant training and supervision of typically unlicensed and inexperienced delivery channel staff.
Back-office management	Managing moderate volumes with traditional systems; gathering a significant depth of information for each policy.	Managing large volumes of very small transactions; gathering limited information for each policy.
Claims	Follow process with significant controls, generally slow claims payment; limited volumes.	High transaction volumes, rapid processing and payment required; limited controls.
Cash handling	Traditionally managing and aggregating cash transactions between insured and insurer through payroll deduction or other simple transactions from corporate entities.	Managing premium collection and claim disbursement through organizations that may require individual transactions with their clients and may not commonly aggregate financial transactions.

23.1.4 Conventional intermediaries and microinsurance

Despite these significant differences between conventional and microinsurance intermediation, some traditional brokers and agents have made forays into the low-income market. In fact, the World Federation of Insurance Intermediaries (WFII), which represents agents and brokers from over 100 national associations, had expressed concern that those promoting microinsurance wanted restrictions lifted to legally allow unlicensed agents to sell microinsurance, so in 2010 the WFII produced a policy paper on microinsurance (*see Box 23.1*). The Federation criticized the lack of regulatory control over microinsurance intermediaries and looked to promote the importance of a professional, regulated market. The paper suggested that there is no reason to treat microinsurance any differently from insurance.

In many countries, however, when intermediaries dig a bit deeper into microinsurance, they often conclude that there is no business case for them in the field. This general stance may now be beginning to change as intermediary success stories become more common. For example, as discussed in more detail later in the chapter, some local branches of major commercial brokers, such as Aon in Bolivia have taken a marked interest in microinsurance and have identified functional roles for themselves. Aon's success in Bolivia gave rise to broader interest in microinsurance at Aon globally.

Box 23.1

WFII policy position on microinsurance

The position paper of the World Federation of Insurance Intermediaries (WFII) calls upon policymakers to consider key areas of concern for the Federation's members:

- “1. There is confusion in some markets with respect to the difference between microinsurance and mass marketing or small premium insurance products.
2. Commercialization of microinsurance is going faster than the implementation of adequate regulation and supervision.
3. Where microinsurance is regulated, the effects on the intermediation market and the principles on regulation of intermediation are often overlooked or not sufficiently considered.”

To address these issues, the WFII concludes “that its current Principles on Regulation on Insurance Intermediation should apply equally to Microinsurance. WFII calls upon supervisors and regulators, where microinsurance regulation is considered, to engage in a dialogue with the national associations of insurance intermediaries in their respective countries to find suitable solutions.”

The Federation encourages its members to “1) Promote WFII Principles on Regulation of Insurance Intermediation; 2) Participate in the debate on regulatory and supervisory proposals and their implementation of regulation for microinsurance intermediation; and 3) Stimulate the growth of microinsurance by providing pertinent information and references to members that would incentivize their participation in this market segment.”

Source: WFII, 2010.

23.2 Microinsurance-only intermediaries

To be successful in microinsurance intermediation, brokers and agents must have the capacity to bridge the gap between the low-income markets and the insurance community. Understanding the insurance side of the equation should not be an issue for most licensed intermediaries, though recognizing and appreciating the needs of low-income markets is very much an acquired skill, which existing intermediaries commonly lack.

To fill the void created by this knowledge gap, at least three organizations were established between 2002 and 2007 with a specific focus on microinsurance intermediation: FMiA, MicroEnsure and PlaNet Guarantee. This section provides a short overview of the three institutions, their business strategies, and their similarities and differences. The section closes with a synthesis of some key lessons learned so far regarding the business model of stand-alone microinsurance intermediaries.

23.2.1 Aga Khan Agency for Microfinance (AKAM)

In 2005, the Aga Khan Development Network (AKDN) set up AKAM as a non-profit development agency under Swiss law to provide microfinance services to low-income families. This resulted in the consolidation of a number of smaller in-country AKDN microcredit and microsavings initiatives mainly based in the Middle East and Asia.

AKAM's microinsurance activities started in 2006 when it launched FMiA in Pakistan² to act as the insurance agent dedicated to serving low-income families for the New Jubilee Insurance Group, which is a member of the AKDN family of companies. A stop-loss reinsurance arrangement was put in place to protect the insurer from anticipated initial adverse claims experience associated with the types of experimental products that FMiA was anxious to pursue. A similar set of arrangements was established in the United Republic of Tanzania in 2009, but without any stop-loss facility. By the end of 2010, FMiA had active microinsurance business in these two countries, with roughly 400 000 lives covered under a number of group schemes.

In launching the programme, AKAM received a US\$5.5 million grant from the Bill & Melinda Gates Foundation. At that time, the business plan was to cover 1.75 million low-income Pakistanis by 2010 and to break even within three years, as well as to expand operations into six countries where the Aga Khan Network had significant operations.

² AKAM was joined as a shareholder of FMiA Pakistan by the Acumen Fund, a US-based social enterprise venture capital fund.

FMiA's microinsurance intermediation was designed to complement already existing and related activities and institutions belonging to the Aga Khan Development Network. Pakistan was an obvious and promising country in which to start operations, given that developed MFIs, health clinics and hospitals, an insurance company and a major commercial bank were all already connected to the AKDN in Pakistan.

AKAM set up a dedicated microinsurance agency instead of developing microinsurance within New Jubilee, with the objective of bringing in new ideas and dedicated energy which, when successful, would facilitate their replication in additional countries. From the perspective of FMiA, the rationale for an exclusive partnership with one insurance company, beyond the alignment of ownership interests in this instance, lay in potentially better synergy in jointly developing complex products: higher-premium products with a value proposition for the end-user superior to the credit life products already established in the market. The concept of working with a single insurance group seemed like a promising way to replicate microinsurance in different countries.

The prospect of successfully tendering comprehensive health products, which was a key goal of FMiA, looked promising given New Jubilee's respectable market share in the corporate market for group health insurance and AKAM's experience in providing savings and microcredit services to low-income families. FMiA started operations in Pakistan with two products: credit life and hospitalization. Offering hospitalization cover through an affiliated network of local health facilities promised to benefit all partners since the clinics had been running below capacity.

In fact, hospital occupancy did rise substantially. However, the health service providers refused to offer more generous rebates on service charges in return for increased client numbers. Such rebates were necessary to maintain the premium rate, which proved to be insufficient to cover the costs of FMiA and Jubilee. This deficiency was also related to the premium being initially set too low for a comprehensive health insurance package, serious adverse selection, particularly for the maternity benefit, and the absence of low-cost day surgery protocols at the AKDN clinics. In short, what seemed to be an optimal basis for starting a promising new service to the low-income population encountered significant difficulties in practice. By 2010, FMiA was still making a loss and required additional equity funding to continue to serve its established client base.

In 2009, AKAM/FMiA entered the Tanzanian market. For a variety of reasons, operations never really took off. Negotiations with local health service providers were unsuccessful and larger MFIs were either not interested or already tied up with insurance providers. Some internal challenges surfaced, too; developing new products with the insurance partner involved heavy bureaucratic processes. AKAM was unable to secure a stop-loss facility and local employees showed only moderate commitment and business drive. Drawing on the experi-

ence with the relationship with New Jubilee Life in Pakistan did not prove a significant benefit in the United Republic of Tanzania. Additionally, it took nearly a year for FMiA Tanzania to be granted an agency licence.

Given the limited results and various challenges encountered, during a profound strategic review of all AKAM's operations it was decided to merge FMiA Pakistan's operations and client base into New Jubilee. This measure was viewed as less costly than recapitalizing FMiA as an independent intermediary. The process of integrating FMiA into New Jubilee and establishing a microinsurance department began in May 2011. FMiA Tanzania was closed down and the limited microinsurance activities in the country were phased out. The AKAM/FMiA experience provides many valuable insights, but also highlights the difficulties on the ground for a microinsurance intermediary striving to build up a sustainable business, particularly with regard to introducing higher-value microinsurance products with a strong social impact to the market.

23.2.2 MicroEnsure

Opportunity International, a non-profit microfinance support organization, started laying the foundations for microinsurance operations in 2002. Three years later it set up a dedicated, for-profit microinsurance intermediary, which sold its first policy in early 2006. The rationale behind creating a separate, dedicated microinsurance intermediary was to better serve Opportunity International's existing microfinance clients and to drive innovation and outreach on a larger scale. Initially named the Micro Insurance Agency, this company has operated since 2009 under the name MicroEnsure. In 2007, the Bill & Melinda Gates Foundation awarded Opportunity International a US\$24.2 million grant on the premise that its MicroEnsure platform would trigger rapid geographical expansion and the development of new products, thus leading to massively increased numbers of microinsurance customers. In its press release relating to the grant, Opportunity International stated that this would allow its subsidiary to enter 11 new countries, leading to 21 million poor people being insured by 2012.

At the end of 2010, MicroEnsure had active microinsurance subsidiaries in five countries: Ghana, India, Kenya, Philippines and the United Republic of Tanzania, serving 2.1 million end-clients (half of them in the Philippines alone). Legally, MicroEnsure is registered in four of these countries as an insurance broker and as a corporate agent in the fifth. In each of these countries, MicroEnsure works with at least two insurance companies. Additionally, MicroEnsure began experimenting with a franchise model³ in Mozambique and Rwanda, which

³ In this case, the franchise model reflects the use of systems and processes by local companies without requiring MicroEnsure direct management.

allows the company to conduct business in these countries while avoiding many of the potential pitfalls associated with legal registration.

MicroEnsure maintains a special business relationship with Hollard Insurance (South Africa), which offers MicroEnsure a facility that operates like a cell captive. This arrangement allows MicroEnsure to use Hollard's insurance licence and write specific classes of business on Hollard's books without having to solicit new capacity or to put up risk capital itself. Hollard benefits from increased insurance volume, while MicroEnsure enjoys a 50-per-cent profit share on underwriting gains.

In addition, Hollard serves in some cases as a reinsurer, which makes the franchise model look attractive. MicroEnsure works at the local level through registered insurers that serve as fronting companies channelling the business sourced by MicroEnsure into Hollard's books and maintaining full control over underwriting and claims data. In this arrangement, MicroEnsure receives a commission for its work and an underwriting profit share.

Though MicroEnsure operates in most cases under the legal structure of a broker, it does much more than a traditional insurance broker would do. It actively works to create markets from capacity building of delivery partners and product development, to underwriting, claims administration and market education. Hence, an outsider looking at MicroEnsure's range of services would conclude that it behaved rather like an insurer, except that it is not exposed to underwriting losses.

Starting with standard credit life products for MFIs, MicroEnsure moved into more complex products and beyond MFIs as delivery channels. The changes arose from both a corporate social conviction (in part due to the company's non-profit ownership) and a business necessity. MicroEnsure management believes that client value is much higher in products such as health or crop insurance and at the same time realizes that credit life microinsurance is quickly becoming a commodity business that will eventually squeeze out brokers unless they add value to the composition, processing or administration of such policies.

MicroEnsure has been involved in the development of index-based insurance (*see Chapter 11*), but it has learned that this area poses many challenges for brokers. Product development is costly and time-consuming, and reaching scale has proved to be difficult – the combination of complex product designs, comparatively high premium levels and incomplete protection has hampered take-up. These realities have motivated MicroEnsure to move away from developing index insurance products as an up-front investment to a model where it offers its expertise as a consulting company for others developing index products. While this move clearly improves MicroEnsure's financial situation, it does not solve the practical problems the product faces on the ground.

In just a few years of operation, MicroEnsure has been confronted with several challenges, which have led to radical changes in strategy. For example, credit life products were too easily copied and administered, rendering them unsuitable as an economic base upon which to build the business. Some adjustments have included reassessing country programmes. In Uganda, for example, one non-functional relationship with an insurance company culminated in the abandonment of the whole market as the reputational damage incurred there was beyond repair.

Undoubtedly, MicroEnsure has contributed significantly to the advancement of the field in several ways, including a demonstration of what should be done in microinsurance. However, the financial aspects of brokering microinsurance have led it to seek alternative sources of income to cover development and ongoing operational costs, as well as to implement a drastic revision of its plans and strategies. While growth in the number of policies has improved in 2011, largely due to mobile phone linker cover (*see Box 24.7*), overall growth has been far below expectations, which were clearly optimistic.

For the near future, MicroEnsure is focusing on the development of valuable and financially sustainable health microinsurance, while developing microinsurance sales through mobile phone networks. With credit life products not providing substantial cash-flow and profitability, mobile phone insurance has the potential to take on this role. With a strong profit generator, MicroEnsure can focus more on products that might provide better value for clients but need more time to reach success.

23.2.3 **PlaNNet Guarantee**

In 2007, the French microfinance organization PlaNNet Finance added a specialized microinsurance broker to its various microfinance activities. The organization, PlaNNet Guarantee, developed microinsurance projects in collaboration with MFIs affiliated with the PlaNNet Finance group. The company initially offered only credit life products, but it has since developed a range of other products.

Originally set up as a wholly owned subsidiary with strategic links to the European reinsurance sector, PlaNNet Guarantee gradually opened up its capital base to four strategic shareholders, each of which now holds 23.6 per cent of the company: BNP Paribas Assurance, Hannover Re, Malakoff Médéric and Finaréa. As a result of this change in ownership, PlaNNet Finance now owns only a minority stake in the broker.

At the end of 2010, PlaNNet Guarantee had an active microinsurance broker business with 24 MFIs in 12 countries.⁴ It is noteworthy, though, that Senegal

⁴ Burkina Faso, Colombia, Cote d'Ivoire, Egypt, Gabon, Guatemala, Madagascar, Mali, Mexico, Senegal, Sri Lanka and territory under the Palestinian Authority.

alone accounts for seven MFI partners. At the end of 2010, PlaNet Guarantee was covering roughly 240 000 lives, largely under credit life products.

Further activities include the creation of a system of health mutuals in Benin and Madagascar, the development of complementary health cover for low-income people in French suburbs (*the banlieux*) and increasingly, reinsurance broker activities predominantly in India. In addition, PlaNet Guarantee has established a research department, which regularly conducts microinsurance studies.

So far, PlaNet Guarantee has found it difficult to cover its primary microinsurance broking costs through related fees. The intermediary's breakeven point in this business segment is projected at two million low-income clients in credit life alone. Yet its main activities are made possible mainly by its equity fund and ad hoc research contracts, as well as micro-reinsurance broking. In 2010, the latter activity generated roughly four times as much income as the company's direct broking operations.

In the beginning, PlaNet Guarantee's strategy was to expand rapidly into many countries. This was done on the premise of reinforcing its image as a socially oriented business bringing innovative products and ideas to undeveloped markets. At the same time, maintaining a widespread network of country operations required substantial investment. In many instances, PlaNet Guarantee was not able to meet each country's operating capital requirements.

In terms of products, PlaNet Guarantee will focus on three categories: crop insurance, credit insurance and health insurance. With the support of the International Finance Corporation's Global Index Insurance Facility (GIIF), PlaNet Guarantee is able to innovate by setting up the first regional management platform dedicated to index insurance in West Africa. The project is based in Senegal with satellite branches in several other countries including Burkina Faso, Cote d'Ivoire and Mali.

23.2.4 Comparison and conclusion

Comparing the three examples of specialized microinsurance intermediaries discussed above may seem slightly unfair as all three of them started from very different initial conditions. However, from a global microinsurance market perspective, some important observations emerge. While generous grants (MicroEnsure and AKAM) or socially focused investments (PlaNet Guarantee) have allowed the three companies to set up large projects, none has so far built a sound commercial foundation for direct primary microinsurance intermediation from which to operate over the long term. Although it has become obvious that the breakeven point in microinsurance tends to take longer to reach than for traditional insurance operations, the limited evidence thus far calls into question the long-term sustainability of current primary broking models. Of the three companies:

- one has abandoned its external agent model, merging these operations into the insurance company and discontinuing its support from international headquarters;
- another has had to make substantial changes to its business model twice in three years; and
- the third does not see profitability other than through cross-subsidies from its micro-reinsurance broking results.

For the two companies with significant donor support, impatience and initial overselling of business prospects or unrealistic expectations may have contributed to these sobering results and triggered partial mission drift in the quest for quicker financial returns. It is clear that achieving profitability in microinsurance takes time, but for intermediaries it is far from clear yet how much time, or in what institutional configuration.

The three organizations also followed different geographic and product line strategies in the start-up phase, ranging from concentrating on one or two countries with a fairly complex product (FMiA) to working in over six countries with a mix of easy, off-the-shelf credit life policies and other more demanding products (MicroEnsure), and working in more than ten countries offering primarily credit life with the intention of adding more valuable products in the future (PlaNNet Guarantee). In terms of the number of clients covered, MicroEnsure appears to have produced the best results. At the same time, it also has the generous donor support as well as institutional links to the largest microfinance network among the three. However, none of these organizations has produced convincing results enabling a business case to be made for microinsurance intermediation.

These organizations have not yet shown that microinsurance intermediation pays enough to sustain a specialized company. It remains uncertain whether there is enough money in microinsurance administration for them to earn a commercial living while still providing a low-cost, high-quality service. The history of microinsurance intermediation is still young, so it is premature to draw firm conclusions. Over time, these institutions should help us to better understand what is needed to build a profitable business from microinsurance brokering.

23.3

Traditional intermediaries with some microinsurance activities

Commercial brokers typically run lean operations and do not have the capacity to do the work necessary to make microinsurance profitable, especially given the additional market-making requirements, but perhaps the tide is beginning to turn. As described below, a few conventional insurance and reinsurance brokers have tested the microinsurance waters and begun to make a name for themselves.

23.3.1 Aon Bolivia

In 2008, Aon Bolivia started to become involved in microinsurance intermediation. This came out of a conviction that there was a business opportunity, which was based on the belief that without an intermediary the microinsurance market in Bolivia would not really take off (Contreras, 2009). Aon Bolivia's approach to microinsurance is typical for a market maker; it did most of the product development work and identified delivery channels willing to provide access to their client bases and an insurer ready to take on the underwriting risk. Aon Bolivia also stays heavily involved in day-to-day transactions, from sales to premium collection and claims servicing. Often the insurer will allow Aon to settle claims on its behalf. In many cases, an employee of Aon Bolivia is physically placed at the partner MFI doing the entire client interaction work.

Aon Bolivia started with credit-linked policies, moved into endowment policies and is currently launching a health insurance product targeting female customers of an MFI. In the last quarter of 2010, Aon Bolivia worked with nine MFIs for delivery, covering 390 000 lives and generating gross premium of US\$170 000 (or an average monthly premium of US\$0.14 per policy). Mandatory credit life type policies and voluntary credit-linked policies (including mandatory product riders and endowments) each account for 45 per cent of the portfolio and non-credit-linked health policies for about 10 per cent. Interestingly, this new health insurance product is not underwritten by an insurance company, but directly by a network of health clinics and hospitals. The premium is approximately US\$10 per month per family.

The cumulative loss ratio for Aon Bolivia's microinsurance business over the last three years stands at 46 per cent and the MFIs' commission as a delivery channel at 20 per cent. In Bolivia, Aon's entry into the microinsurance market has not yet led to significantly decreased premium rates for end-customers. However, the market does benefit from increased product choice and presumably higher service standards. According to Aon Bolivia, the question of evaluating an intermediary's value proposition is misplaced, especially when the intermediary is involved in new and innovative market-making behaviour. The broader issue at stake is whether the intermediary has helped to develop a microinsurance market at all, not whether a market is more efficient thanks to the involvement of an intermediary. Therefore, the intermediary's value lies in its ability to create a market through innovation, and to change the mentality of underwriters so that they treat microinsurance as a stand-alone business line that has its own unique characteristics rather than as a mere extension of traditional insurance.

23.3.2 Marsh India

In the same vein, Marsh India has developed a significant presence and portfolio of microinsurance business by acting as a market maker. In this capacity, Marsh

India is able to provide both insurance companies, which are keen to capitalize upon microinsurance business, and distribution channels, which often do not have the human resources or financial capability to implement new programmes, with services that enable them to start or expand their microinsurance activities. In particular, Marsh India has developed a business model providing advisory and consultancy services supporting the management and implementation of many of the government-sponsored health microinsurance programmes proliferating in India, such as RSBY (*see Chapter 20*).

In the case of RSBY, Marsh India's role is varied, but begins during the periodic tender process for each state or district. Marsh India will work in partnership with selected insurers interested in bidding for an RSBY tender and act in an advisory capacity. Assuming the insurer is selected as the carrier for the tendered programme, Marsh India will then act as an intermediary and advise the insurance company on the management and implementation of the scheme, including policyholder enrolment, claim administrator selection, auditing and evaluation of scheme performance, and reinsurance purchasing as necessary. In fulfilling the last function, Marsh India, along with its sister concern Guy Carpenter, has developed a reinsurance market to support such schemes. In some cases, Marsh India has worked with its clients and reinsurers to arrive at a price to be quoted for a tender, and if the company were successful the reinsurer would provide quota share protection of up to 70 per cent.

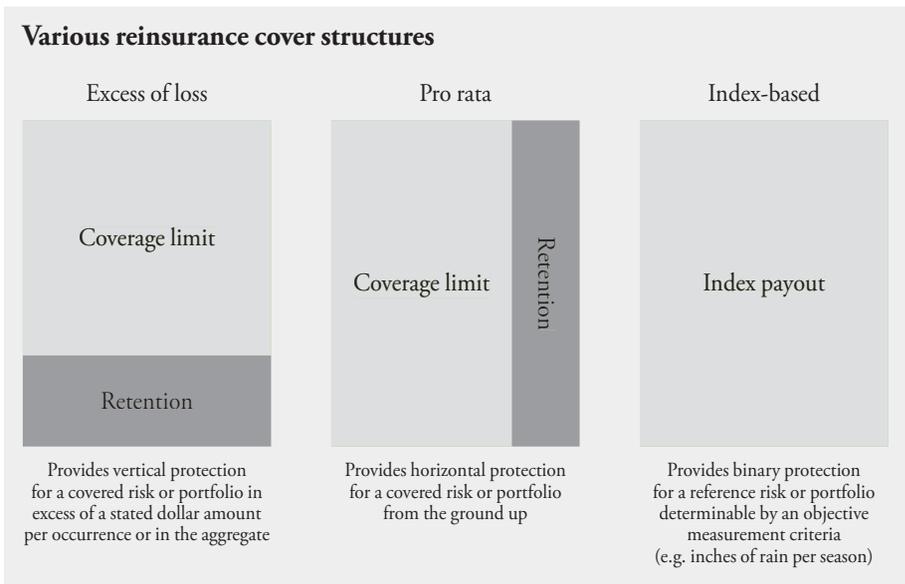
To date, Marsh India is working with seven government programmes representing over 85 million policyholders. In addition, Marsh India is working with partner insurers and key distribution channels in the country on the development of a handful of private-sector microinsurance programmes, which span a wide variety of products such as agriculture, natural catastrophes and life.

23.3.3 Reinsurance brokers and microinsurance

Reinsurance, insurance for insurance companies, involves the transfer of risk from insurers, or cedants, to reinsurers, which are a specialized type of insurance company set up to underwrite and protect the portfolios of insurers. Reinsurance transactions can take many forms, including excess of loss, pro rata and index-based (*see Figure 23.3*), but they are generally used by cedants to gain one of the following core financial and non-financial benefits: surplus relief, large line or aggregate capacity, results stability, catastrophe protection or access to expertise. In the context of low-income markets, microinsurers tend to seek micro-reinsurance support to improve in-house underwriting expertise (Garand and Wipf, 2006), to bolster limited risk tolerance or capital, to manage covariant risk or to minimize new-product pricing risk.

Similarly to traditional business, a microinsurer may call in a broker to structure a reinsurance deal and effectively bridge the knowledge gap between insurers and reinsurers. One such intermediary, Guy Carpenter, set up a special unit in 2008, GC Micro Risk Solutions, to facilitate the transfer of various types of microinsurance risk to the international reinsurance market on a commercial basis. The unit's commercial micro-reinsurance transactions to date include aggregate stop-loss (a type of excess-of-loss cover) and quota share (a form of pro rata reinsurance) for several coinsurers involved in a large government-sponsored critical illness programme in India, a life quota share for a start-up microinsurer in Southern Africa and an index-based catastrophe programme ultimately benefiting an MFI based in Haiti (*see Box 4.5*).

Figure 23.3



As with primary intermediaries, Guy Carpenter is often required to develop a market. This means supporting microinsurance projects before they can be reinsured with product development services, or setting up partnerships with primary insurers. GC Micro Risk Solutions believes that delivery channels, broadly defined as any organization with an existing or potential financial relationship with the poor, will increasingly require such services if they are to move into more complex and risky lines of microinsurance such as agriculture, health and property. Simultaneously, many primary insurers will quickly reach their limits in respect of product know-how and risk management, making access to reinsurance capital and expertise increasingly important for expansion.

On the other hand, the role of reinsurance in the microinsurance market will undoubtedly change over time. In the short term, reinsurance may have a relatively broad appeal since the risk associated with microinsurance business remains too great for many local or inexperienced primary insurers to carry. However, as the market matures, primary insurers will grow more experienced and comfortable with microinsurance risk. When this happens, the distinction between microinsurance and traditional insurance will begin to blur as a natural consequence of economic development. While the timeframe for this maturing process is currently unclear, it is certain that now is the time for reinsurance companies to assert and maintain value in the development of microinsurance.

The limited evidence so far suggests that it is possible to charge commissions for intermediating reinsurance protection for microinsurance schemes that are high enough to consider it as the basis for a commercial business, although it is not known whether Guy Carpenter has already broken even. This question becomes more interesting considering that the bulk of Guy Carpenter's micro-reinsurance premiums brokered originate from the Indian-government-sponsored health insurance programme for the poor, which is also the most important deal for PlaNet Guarantee. In short, the number of commercial micro-reinsurance deals is currently limited.

The value proposition of a micro-reinsurance intermediary, like that of a microinsurance intermediary, cannot be accurately measured only by efficiency gains because a direct micro-reinsurance market has yet to develop an adequate basis for comparison. A broader view needs to be taken. It is important to consider what contributions a reinsurance intermediary alone can provide better than other market makers working to develop innovations in the field.

23.4

The value of microinsurance intermediation

The question of the value of insurance intermediation should be approached from both a client's and an insurer's perspective, taking into account the level of market development and the reason for the intermediary's creation. During the market development stage, however, most of these considerations are largely theoretical because there is too little information and few comparable markets are available, which limits possibilities for statistical analysis.

In traditional insurance markets, most of the value created by intermediation relates to the matchmaking services, i.e. finding the best existing insurance product to respond to a client's needs. The intermediary's value proposition is market intelligence and efficiency in finding the right product, though intermediaries may also provide value by advising the client on risk management strategies and pushing insurers to innovate at the margin where they detect unmet client demand. The intermediary's neutrality is important, especially for

the client, because neutrality will ensure that clients get the best deal. However, complete neutrality is difficult to achieve because intermediaries are often paid by commissions on the premiums brokered. From a client perspective, value tends to be higher when the intermediary market is competitive. Insurers, on the other hand, benefit when intermediaries bring new clients to them; intermediaries screen clients and will only present those to which the insurer is interested in offering a product. This is likely to be cheaper for insurers than contacting and screening new clients directly. From a market development perspective, intermediaries can increase efficiency in a competitive, developed market environment, compile and publish data, and offer a “second opinion” on issues such as natural-hazard modelling.

Unlike the traditional insurance market, in microinsurance most markets are not developed enough to allow for pure matchmaking services. Instead, intermediaries have to create a market. Market-making requires a different skill set from that needed by traditional intermediaries and the value proposition is also decidedly different for microinsurance. Answering the value question from a microinsurance client perspective has to be nuanced; clients often have to learn about microinsurance before contemplating buying such a product. Once the demand is generated, in contrast to traditional insurance markets, clients will not necessarily find a wide array of products to choose from. As a result, the value of microinsurance intermediary activity, from a client perspective, lies in building a formal market that caters to their needs. This is different from identifying the best product and reducing overall costs as is done by traditional intermediaries. In more developed microinsurance markets, intermediaries may offer a combination of market-making and matchmaking services, which includes efficiency gains through economies of scale on the back-office side, driving innovation by exploiting their multiple relationships with larger insurance companies and increasing competition among insurers.

From an insurer’s perspective, the microinsurance intermediary may provide valuable information on a potential market. This information indicates market size, demand structure and client typology, specific risk data and intelligence on how to best reach clients. For example, Weather Risk Management Services (WRMS), an exclusive weather insurance broker, helped to launch the index insurance market in India, not just by facilitating contracts between insurers and delivery channels, but also by digitizing data from non-automated weather stations and developing the risk models necessary for product design (*see Chapter 20*). A microinsurance intermediary may also offer various front- and back-office services, since many insurance companies lack the technical capacity to handle large additional volumes of low-margin products.

Information on the market collected by intermediaries and their various risk transfer resources can be exceedingly helpful to representatives of microinsurers.

Of the intermediaries canvassed in this chapter, both MicroEnsure and PlaNet Guarantee have gathered proprietary and public datasets and produced information based on them that is important to the industry.

The market development view may be the most important one in microinsurance intermediation; creating demand and supply, driving innovation on all sides and setting up efficient service structures are extremely important for market development (*see Box 23.2*). Microinsurance intermediaries play a unique role in accomplishing these tasks because intermediaries possess knowledge about the specific needs and requirements of the low-income market and the workings of commercial insurance companies. Market development is a necessity for intermediaries, since it allows them to establish their own economic base.

Box 23.2

Intermediaries as market makers: MicroEnsure in the Philippines

The Philippines has seen dramatic improvements in its approach to microinsurance resulting from a major coordinated effort between government agencies, donors, some private sector insurers and their associations, mutual benefit associations (MBAs), and delivery channels like the rural bankers' association. This effort has led to a paradigm shift that is still in process. As an intermediary facilitating relationships between MFIs and insurers in this market, MicroEnsure played a helpful role in pushing the frontier and promoting good value microinsurance.

Based initially on its relationship with one large MFI, MicroEnsure has found financial success in the Philippines, which is thus far its flagship country of operation. MicroEnsure has done so by offering local insurers back-office services to administer policies for their existing client bases. Building on an initial client base of roughly 240 000 covered lives, as well as on positive demonstration effects, operations quickly expanded. At the end of 2010, MicroEnsure Philippines had worked with over 20 MFIs, serving more than one million clients.

In its first phase of market entry, new partnerships with MFIs added to growth. Over time cross-selling of different products to existing clients gained in importance. Both factors may be beginning to flatten out, so that future growth will only be possible if MicroEnsure can tap into new delivery channels besides MFIs.

MicroEnsure's approach involving simple products, easy underwriting requirements, demand-driven benefits at fair premiums, and simple claims procedures has served as a strong example and a reinforcement of the efforts of others. Despite its success, MicroEnsure faces challenges from MBAs and some insurers as they strive to enhance their value proposition by providing simpler, better and faster service to the low-income market. The potential erosion of market share for MicroEnsure shows that even though it contributed to improving the microinsurance market in the Philippines, the market is moving quickly and it is easy for a broker to lose its competitive advantage.

Moving forward, if intermediaries are successful with their market-making activities, the value proposition is likely to change. If microinsurance intermediaries continue to have a role, three challenges will need to be addressed to ensure that the brokers' and clients' interests are well aligned:

- 1) **Increasing completion:** The absence of direct competition in the primary intermediary arena means that clients may not be able to make more informed and empowered choices when deciding between different risk management service providers. However, given the limited number of actors in most current markets, it might be difficult for a second intermediary to enter and compete head-on with an established one. The incumbent intermediary, if successful, will have already established relationships with most high-potential delivery channel partners, thus restricting the delivery channel partner options available to the second intermediary. The foray of conventional brokers into microinsurance may stimulate such competition if the experiences of Aon Boliva and Marsh India are replicable.
- 2) **Lock-in of delivery channels:** In addition to linking delivery channels with insurance providers, microinsurance intermediaries also offer portfolio administration services. In most cases where an intermediary administers the portfolio, clients were not truly free to choose these services because they typically come bundled with the overall risk management package, sold as an integral piece of the total value proposition. With specialized software solutions and cost-benefits gained from economies of scale and a streamlined production-focused business model, microinsurance intermediaries should be able to administer the portfolio much more cost-effectively than insurers. This is convenient for all involved, especially as many players in microinsurance struggle with the selection and implementation of efficient software solutions.

However, the possible downside is the potential challenge of migrating the portfolio to a competing intermediary or going direct at a future date. This holds true for delivery channels and microinsurers alike. For both, the crucial question is whether they want to invest in their own microinsurance businesses, building up knowledge and expertise internally and ultimately driving the market themselves, or they want to rely on a third party to do most of this work. For those who want to test the waters and make long-term decisions later, working through an intermediary is often a good idea. However, delivery channels and microinsurers should make sure they still have room to make strategic decisions later, including moving the business to another carrier or service provider.

- 3) **No incentive to reduce premiums:** Broadly speaking, a microinsurance intermediary's value proposition is threefold: first, gathering market intelligence and educating potential clients about the value of risk transfer; second, driving innovation through communication, education and negotiation with insurance companies; and third, administering portfolios efficiently. The first two services are

particularly interesting for new microinsurance market entrants, especially those with a desire to take part in pushing the microfinance frontier forward. The last one, portfolio administration, is of particular value for small players or in markets where the intermediary has significant advantages in terms of economies of scale, which would justify outsourcing portfolio administration even for large insurance companies. While this portfolio administration may remain valuable over time, the first two may be less so. Market intelligence is of vital importance in the development phase of an insurance market, but not all clients are always willing to switch providers once they are happy with the products and services received. Similarly, delivery channels, the intermediary's direct clients, are not constantly interested in product innovation.

Most intermediaries charge a volume-based commission for their services. This can be a fixed amount per transaction or policy administered, or a percentage of overall premiums generated by the intermediated business. In both cases, the intermediary has a clear interest in expanding business, but not necessarily in driving costs further down once a premium flow has been established, especially if the commission is positively correlated with the premium generated. This implies that intermediaries only have an interest in negotiating the most cost-effective deal for a client when in danger of losing business. As there is little competition, clients of microinsurance intermediaries might consider building assurances into their contracts such as performance-based commissions to protect against any possible lackadaisical behaviour.

Moreover, price is only one aspect of determining a good deal; post-production service, promptness of claims payment and value-added analytical services are important factors in deciding the value of inputs received. Intermediaries typically spend significant time and effort when entering into a new deal, often free of charge. Most of the value added through market intelligence and product innovation entails up-front costs, while portfolio administration is linked to a steady stream of service. Intermediaries have to recover these up-front costs but have typically not been explicitly paid for them, i.e.: they have to factor these costs into their volume-based pricing structure. Consequently, coming up with a sensible remuneration structure that motivates intermediaries to continually seek the best deal for its clients is important. It is also necessary to ensure that service and premium rates are renegotiated, especially after a given period during which no favourable change or innovation has been implemented.

23.5

Conclusions

Microinsurance is a nascent industry and is a relatively minor portion of the business of most commercial insurers and delivery channels. The limited focus of these crucial parties in the microinsurance supply chain may explain the slow

development of microinsurance in some markets. In specific cases, insurers or delivery channels can drive innovation independently and develop effective working models, though in most cases, they do not have sufficient motivation to push the boundaries of microinsurance products, services and processes. This is not surprising considering that the focus and origin of such organizations is in other areas, such as traditional insurance, microcredit and retail.

It may be too much to expect any more from insurers and delivery channels. Given this reality, intermediaries may be needed as market makers to develop, promote and innovate so that microinsurance can realize its full potential. However, a different approach to insurance intermediation is required. Given the unique hands-on requirements of serving the low-income market and of fostering a paradigm shift in the insurance industry, microinsurance intermediaries may require full vertical solutions to market creation from product development, grassroots distribution and claims administration to portfolio micro-reinsurance placement. Many of the intermediaries profiled in this chapter appear well poised to integrate and implement such solutions.

The challenges of microinsurance are exemplified by the conflicting needs of value chain participants: insurers, intermediaries and delivery channels need to cover their costs and earn a fair margin, while simultaneously offering consumers a low-premium, high-value product. The microinsurance-focused intermediaries have all experienced financial difficulties and less business volume than originally anticipated, and have had to make substantial adjustments to their strategies to find a way to break even. Developing sustainable microinsurance businesses takes time. However, the business case for microinsurance intermediaries is not yet proven.

The commercial intermediaries profiled with mixed product offerings are possibly better positioned for profitability because of the economies generated by offering business across the insurance market continuum.

Despite the uncertain business case, it is clear that there is a potentially important role for intermediaries. If managed effectively and efficiently, the role of the intermediary could be a significant driving force for up-scaling microinsurance. We need to watch the efforts going on now to transform these entities as they work to find the right fit for the microinsurance market-maker role with a structure that can be profitable. It is quite possible that the emerging solution will lie with insurers establishing somewhat independent microinsurance departments. The initial operating results and teething troubles could be “ring-fenced” from the insurer’s mainstream operations. The insurer’s shareholders and Board would need to extend to this department the vision and patience that the microinsurance market now so evidently requires for long-term success.