

COMPATAMOS CASE STUDY ON HAVING INNOVATIVE
AND SUSTAINABLE MICROINSURANCE PRODUCTS

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I. Introduction

This paper is based on the experience that Compartamos has had for the last 7 years in all the process that followed to develop the three products of life insurance that are offered to their clients.

We focused in to main activities of the product development process, the market research and the design activities that are the ones that had helped Compartamos to really understand the real needs of the clients and transform them in reality, which is the theory that Compartamos has to have innovative and sustainable microinsurance products.

We try to exemplify how being innovative is just a matter of attitude and an habit of having always a different way to see things, and the importance of every parties (MFI, insurers, channels, regulators, brokers, etc.) to feel part of the same dream, and to work together to achieve it.

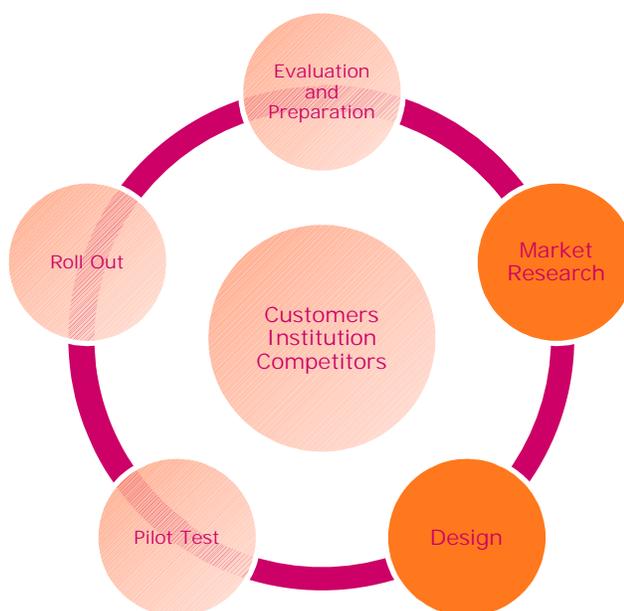
In few words, having in mind that our clients always comes first, and involve in this fact to all the parties involved on the process of having innovative and sustainable microinsurance products, is the key for success.

II. The Importance of Understanding Client's Needs

Understanding client needs and their disposition for paying for microinsurance services, is the main clue to be able to develop demand, driven and affordable products.

Based on Compartamos experience, what helps to generate added value on developing products, is having as a guideline the Product Development Process, and following the process helps defining the specific details and characteristics for MI products.

PRODUCT DEVELOPMENT PROCESS



To prove that understanding the client's needs has to do with the 80% of having innovative and sustainable microinsurance products, and not in how creative we can be behind a computer and making assumptions of what we think they need, the market research and the design tasks from the product development process, are the ones that helps proving this.

a) Market Research:

This process includes a wide range of issues and activities, for this case, we are making reference to the following activities that had helped Compartamos to understand its clients



- Field: being on the field, in the everyday of our clients, on what they do since they wake up, which are their worries, their responsibilities, their priorities. That is the best way to understand what we call T.D.U.F., that means what the client Think, Do, Use and Feel, but when we are with a special set of mind on the field, we could put ourselves at risk of not being objective what are we understanding about what the client needs, rather that which are those real needs.
- Surveys: This is what helps keeping out the subjective issue of being on the field, it´s a good tool to compare what were the results of being on the field (T.D.U.F.) and what the clients are really asking for.
- Focus Groups: This will help to answer all the doubts we have from the results of the survey and the experience on the field. Is the final part to close the circle of understanding what the clients are asking for.

Compartamos Case Study in developing MI Products: Market Research

In 2004, we had the target of understanding how clients make front to eventualities that had a negative impact in their quality life with the final objective of developing a life insurance product to offer to our clients.

Throughout the survey we evaluated if our clients or prospects:

- Knew about any institution that besides loans offered other financial services
- Financial services which they count with
- Advantages or disadvantages of what they see in an life insurance product
- Intention of buying an insurance product
- Conjoint analysis of the type of insurance that will be more attractive to them
- Which will be the perfect product for them
- How do they make front to this kind of eventualities

Some of the main discoveries that we had were:

1. The principle meaning that a life insurance has for them is
 1. "family welfare", which for them means cover with the money the welfare of their families
 2. Medical protection
 3. Funeral expenses
2. They have no credibility on the context of the insurance they are use to hear form, the few experience from the clients that had already an insurance product (only 4% of those polled) is that they never paid, they always have "small letters" an complicated contacts, they are very expensive "is just for the rich people"
3. They'll like a product without restrictions and that will help them to make front to the expense they have when someone dies, as funeral expenses, children education, etc. and in average they were asking more or less \$12,000 pesos (USD960), that will cost them average \$10 pesos per month (USD .80c), and the claim process should be efficient (not in species but in cash).
4. No to try to change them their culture, mostly the death culture they have an how are they used to arrange funerals
5. How they make front when they have no other chance of having this kind of financial services, they borrow money from their families, or from loan sharks with high interest rates, their children stop going to school to help in the family business, they sell some of their personal assets.

III. The Challenge of the Lack of Awareness for Prevention Products

We were facing specially two contexts that didn't help in the exposure of what we knew, from process we follow to understand the real needs, that microinsurance could mean and represents to the different parties but above all to the poor people: a very low culture in prevention mechanism in Mexico, even in the top of the pyramid (xxx%) and an Institution that for 14 years have being only offering to their clients' loan products.

Implementing the activities mention before (the process to understand the real needs), besides the great value of having an X-Ray of our clients, helped us to raise awareness of the benefits that MI products have to offer to the different parties that take part in the MI business and first of all to the clients.

The first challenge besides generating a prevention culture in our clients was to convince the essential parties of this new business line.

Compartamos Case Study in developing MI Products: Raising Awareness

Based on the results of the process to understand the real needs on prevention, the strategy was to present those results to the different actors that were essential to be able to design an MI product.

These essential actors were:

1. The MFI: Convincing the board to invest in a new business line that will give them diversification on its business and at the same time will generate loyalty in their clients
 - 75% of the clients and 65% of prospects, are willing to buy a life insurance from Compartamos, because of the credibility they have in our institution
 - 94% of their clients, had a positive reaction to the possibility of Compartamos offering them a prevention mechanism
 - Only 4% of their clients had already a life insurance product
 - 53% of think that one of the advantages of being insured was to protect their families, 39% thought as an economic advantage as living an asset to their families or help them make front to all the expenses, and only an 8% didn't see an advantage of having an insurance product
 - The only disadvantage that 100% of the clients saw was that they thought this kind of product are not affordable for them (because of the prices and the requirements to apply for one)
3. Back Office Staff: Trying to open their eyes to new responsibilities of what they have being working during the last 14 years:
 - Presenting them how their career plans could expand getting to know about a different business line besides loans
 - How Compartamos will keep working in its mission of giving their clients developing opportunities, and how prevention services will help also in their family stability
4. Sale Force: Rise the awareness on how having prevention mechanism could change their lives and the lives of their clients, as they see their clients as part of their family
 - Showing them the negative impact the client has when they have to face an eventuality because they are not prepared to what could happen, they are use to live by the day
5. The Insurers: The insurance sector was focused only on the middle/upper class of the country, and were used to develop the ordinary products with no ambition to experiment on the segment of the bottom of the pyramid or to get out of the box in terms of developing innovative products
 - Showing the death rates of Compartamos clients that it was considered as a healthy one. Only 0.010% of the clients died per year
 - Demonstrating them the good behavior on the payment of the loans that our clients had in Compartamos experience
 - Take them to the field to get to know how this segment of the population works and the responsible that they are to keep their families business going on and how they faced any eventuality
 - 94% of the Compartamos clients that were interested in some prevention mechanism, for them represented a very attractive portfolio
6. Regulators: facing the authorities that 70% of the population has no prevention mechanism and how can we helped them to be better prepared to face eventualities with ought putting at risk what they have gain with their daily work on how this could help the situation in Mexico
 - Making them a presentation with the impact indicators
 - Taking them to the field

This strategy helped us to have the support for the different parties to start designing innovative MI products, that will answer the client's needs and that were what take us

to the next step from the product development process, the design process, and to be able to talk in the same language.

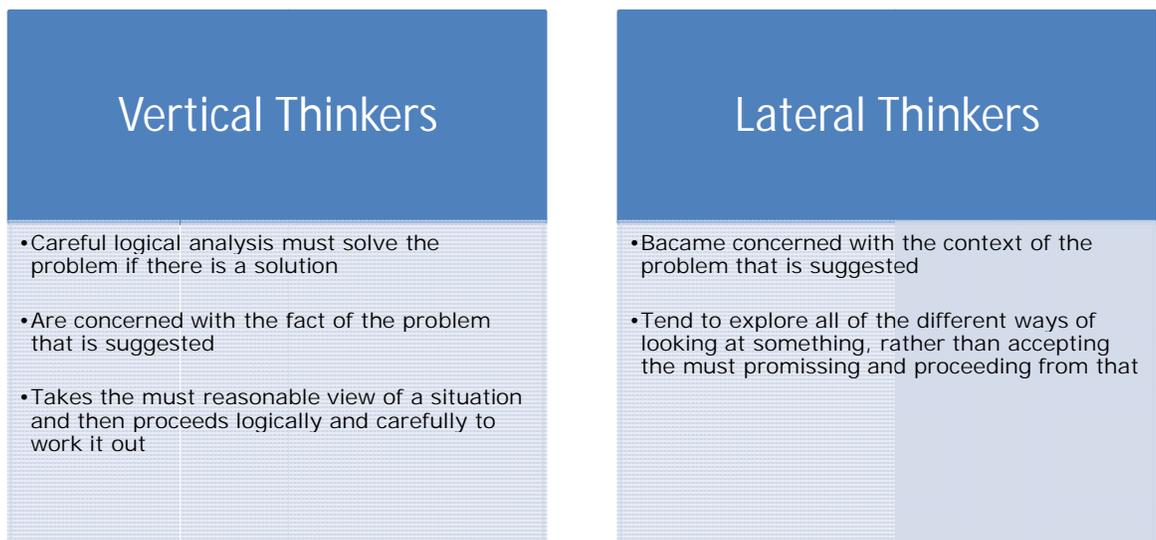
IV. Developing Innovative Microinsurance Products

There are several types of life insurance in the market, but not necessarily they fit what our clients were asking for. We saw in the market research process, that asking questions helps us finding answers. Now in the design process we have the challenge of those answers transform them in new ideas with a creative thinking.

b) Design:

This process has the quality of considerate all the new ideas that were found and make them become the answer for the client's needs, and having in mind that always the client comes first, is a good start of achieving the goal.

The importance of having a lateral thinking versus a vertical thinking makes all the difference in the result of a product design process:



So to really design innovative products we need lateral thinkers, new ideas equal creative thinking. Normally the achievements of lateral thinkers are genuine creations, at other times they are nothing more than a new way of looking at things. The good news is that everyone can develop a certain skill of lateral thinkers, is not a magic formula which can be learn at once, it is an attitude and a habit of mind.

This attitude of all the parties that are involved in the design process, is what helped us transforming the client needs to reality, and this automatically guarantees demand and driven products that will turn on sustainable microinsurance products

Some criteria for successful microinsurance are:

- Identify a potential partner that shares the values and philosophy from the MFI and that will be willing to be a lateral thinker partner

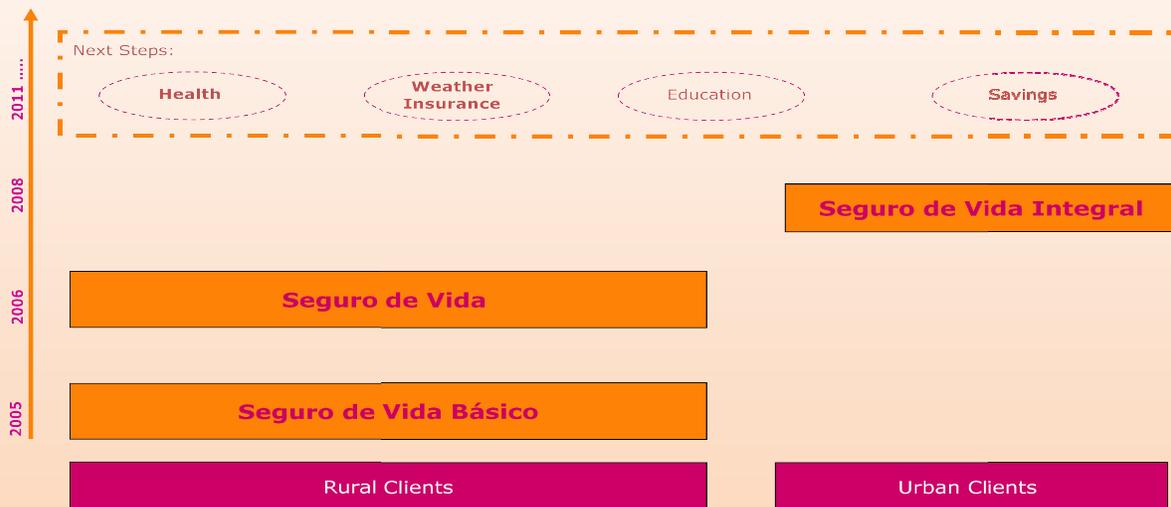
- Designing SIMPLE products, by this we mean simple methodologies, simple characteristics, simple processes
- Controls that make sense, simple products help having strong but adaptive controls
- All the parties have something to give to the process, we have to see each other as a part of the team:
 - Channel: penetration, experience on the field, knows their clients' needs; credibility
 - Insurers: experience on policy holders
 - Regulators: experience on controls and good practices
 - Brokers: experience on administration and negotiation skills
 - Donors: great support to help us being lateral thinkers

Compartamos Case Study in developing MI Products: Design Products

Compartamos strategy to design products is to first of all make the wishing list to all the parties based on the results of what the clients are asking for, once we have the "wishing list" always thinking in the client first, we get out and present it to the parties in a way of "selling the dream"

In the last 5 years we have develop three different life insurance products that answers the needs of different clients and that have different purposes. But the main characteristics of these products are:

- 100% Life Insurance (there are no credit life products)
- Voluntary products
- No age limit
- No preexistence
- No exclusions
- No medical exams or questionnaires
- 48 hour claim payment



Some of the performance indicators of these products are:

- 2,260,876 active policies (benefit policies + voluntary policies)
- 710,876 voluntary active policies
- Monthly sell of aprox. 195,000 voluntary policies
- Seguro de Vida: 47% of acceptance / 80% of renewal
- Seguro de Vida Integral: 11% of acceptance / 11.59% renewal
- Claim process: 11 days = 9 days for the beneficiaries to present the death certificate and 2 days for Compartamos to pay the benefit amount

V. The constant challenges

We will never stop facing new challenges because our clients cycle of life will continue to change and new needs will raise and we have to be able to be aware of those to continuing having products and services that will respond to those needs.

Having compensate the sale force is one of the main clues of being able to have sustainable products, this force them to get to know the products and to want to promote them to their clients. We always keep in mind that selling insurance is not easy, and for loan officer that are used to sell opportunities of getting better their business, to change the switch to sell prevention to what may happen, it needs: good training methods and good incentive models.

VI. Conclusion

- One of the best strategies to be always aware of what the client needs and to compare if the products that we have keep answering to those needs, is the T.D.U.F method. Being on the field help us always knowing what our clients think, do, use and feel
- Never stop asking questions that will help us always finding new answers that will force us to think creative being lateral thinkers and achieving innovative products. Understanding the client's needs and transform those on reality, rises the demand of the product and the loyalty from the clients to the institution
- Having stupidly simple products helps everyone and is the main clue for having sustainable products
- The importance of having a good communication strategy, where the board takes an important part of it, is essential to be able to raise the awareness that is needed in al the levels of the institution and with the different parties
- Having in mind that always the clients comes first, and that typical insurance products are not microinsurance product, will help us remind the importance of always being innovative
- The importance of separating data to be able to demonstrate the performance indicators to all the parties to continue having their unconditional support