Case Study:
Max Vijay Microinsurance Product

It was April 7, 2010. Mr. Kenneth Sannoo, Director and Chief Distribution Officer of the Max New York Life's New Markets Division, was finishing lunch with his colleague, Rajit Mehta, the Chief Operating Officer. The two businessmen were considering how to increase the market penetration of Max Vijay – Max New York Life's microinsurance product line targeted at low-income families – across India. As of the first quarter 2010, 90,000 low-income individuals held a Max Vijay life insurance and savings policy, out of a potential market of 100 million households.

"Max Vijay is a wonderful product that meets the financial needs of low-income Indians by offering them financial protection through life insurance as well as a vehicle to encourage savings and, therefore, long-term wealth creation," noted Sannoo. "The product is affordable, flexible, and accessible."

"All true," agreed Mehta. "Insurance provision to low-income families is a good business."

"Most of India's insurance companies are promoting the same products in poor rural areas that they offer in the wealthier urban areas," said Sannoo. "It was a wise decision to create a specific life insurance and savings product geared toward the needs and preferences of low-income households. Unfortunately, we thought we'd be breaking even on this product by now, based upon our initial financial projections. We need to determine how we can provide this product through an efficient and effective distribution network so that we can achieve financial profitability."

The two men walked back to the office to meet with their colleagues, Nirlipt Singh, Max Vijay's Assistant Vice President of Distribution and Atul Mittal, Max Vijay's Assistant Vice President of Marketing.

Background

In 2001, New York Life International and Max India created a joint venture called Max New York Life, one of the first insurance companies established when the Indian insurance market was opened to the private sector. In 2008, Max New York Life created a separate business unit to serve the low-income market in India. This business unit was staffed by dedicated professionals who handled all functional areas including marketing, distribution, and operations, and used a multi-channel distribution strategy to sell life insurance and other financial products. The flagship product of this new unit was Max Vijay.

The origins of Max Vijay date back to 2006 when Mehta returned from an international executive management program excited by stories of other financial services companies that had successfully developed new niche products and services. "We have millions and millions of rural consumers who need a special strategy to help them achieve some

Prepared by Susan Harmeling, International Case Method Institute, July 2010.

degree of financial stability," Mehta thought. "These customers could benefit from life insurance, but may not really understand what life insurance is, may be reluctant to commit to regular payments, or may simply find the policies too complicated." He also knew that the rural poor could certainly benefit by saving a portion of their small incomes, but were likely overcome by the typical daily challenges faced by low-income families in developing nations across the globe.

Given its strong foothold in India, it was no surprise that Max New York Life wanted to be a "first mover" in this market. Spurred by the enthusiasm of Mehta and his colleagues at Max New York Life, New York Life International and Max India Limited agreed to commit US$20 million to allow Max New York Life to launch the Max Vijay product in July 2008. The four strategic pillars for Max Vijay included distribution, marketing, training, and business services.

Max Vijay did not use its own agents, but rather worked through distributors who acted as agents themselves and operate through a network of referral agents. Operational support for Max Vijay came from IBM, which managed outsourced services including computer servers and a call centre. Marketing was also critically important to Max Vijay's success. Accordingly, Max New York Life hired a well-known and trusted Bollywood star, Amitabh Bachchan, to serve as a spokesman for Max Vijay; this celebrity endorsement – in combination with a complex marketing strategy including advertising (television, radio, print and billboard), mobile vans, and contests – meant that the company was spending significant amounts of money to build the product brand.

The initial hope of project developers was to reach client volumes that were sufficiently high to ensure that Max Vijay would break even in the first two years of operations. In fact, with 90,000 active policies, and a Gross Written Premium of approximately $1.2 million, Max Vijay was performing quite impressively. However, by the fourth quarter of 2009, the Max New York Life board of directors realized that no immediate returns could be expected from the $20 million investment. The business model made sense, but project developers had learned that it was far more difficult to reach out to low-income households than they had first expected.

Broad Client Base

The potential client base for the Max Vijay product was estimated at 100 million households across India. Surveys indicated that, while 80 per cent of Indian households had savings, only one fourth of them used formal financial instruments. Indian households cited emergencies, education, old age, and ceremonies as the primary reasons driving them to save. Survey data indicated that low-income individuals were interested in saving, but saving behaviours were only successful over a short time period, and few had life insurance policies.

"The Max Vijay product was conceived as a way for middle and lower-class people to save," noted Mittal. "These people understand the importance of savings, yet they are unable to do so because they face a cycle of limited income and unlimited expenses. In fact, there are rare times in their lives when they could actually amass a meaningful amount of money to deposit in a bank. Furthermore, bad experiences with savings plans that had turned out to be fraudulent meant that many people were suspicious of formal savings products."

Although many Indians were generally suspicious of saving vehicles, ongoing saving behaviours were common among the poor, partly due to social pressures. Low-income households had around 3,000 to 6,000 rupees ($64 to 128) in surplus income per year; of this surplus income, about half was saved in cash while the other half was invested in physical assets. Only 40 per cent of low-income households had bank accounts, and 25 per cent had formal loans outstanding. Only one-third had confidence in stability of their income, and half said it took them less than a year to recover from a major shock. Approximately 40 per cent said that their savings did not last more than 6 months.

Approximately 60 per cent of low-income households were aware of life insurance, while only 14 per cent had a policy; annual average premiums among policyholders were 2,700 rupees ($58), with an average maximum death benefit of 72,000 rupees ($1500). The four main reasons cited by people who did not purchase insurance were the high initial premium; fear of policy lapses; aversion to health checkups; and dependence upon an agent (i.e. when the client moves or the agent departed, the link was broken).

A Flexible and Accessible Product

Max Vijay's life insurance product was a 10-year life insurance policy at an initial premium payment as low as 1,000 rupees ($21). The policy could then be "topped up" periodically at the policyholder's discretion, with amounts of money as low as 10 rupees. Age eligibility for the initial product purchase was 10 to 50 years. The target client base for these products included families with 5,000 to 12,000 rupees ($100 to 250) in annual income; the initial premium payment of 1,000 rupees was assumed to be difficult but not impossible for many of these families.

Clients had the choice of three product variants – Max Vijay Rajat, Max Vijay Heera, and Max Vijay Swarna – which varied by initial premium payment (1,000 rupees, 1,500 rupees, and 2,500 rupees, respectively) and maximum death benefit (five times the premium payments received in the case of natural death and ten times the premium received in the case of accidental death, up to a maximum of 50,000 rupees, 75,000 rupees, and 100,000 rupees, respectively). Approximately 84 per cent of Max Vijay policyholders had purchased the Max Vijay Rajat product – the least expensive option. The aspirational messages of the marketing campaign encouraged consumers to top up their policies and "become the hero of your family" by saving for the future.

The Max Vijay policies specified that 60 per cent of the initial payment and 90 per cent of subsequent payments were to be invested in government securities and equities by Max New York Life, with the rest covering the premium for the life insurance component. Investment earnings were added to the policyholder's account each year and were guaranteed by Max New York Life; policyholders could start withdrawing funds from the policy after three years. Policyholders were required to pay surrender fees if they closed the policy completely, with fees declining over the life of the policy. After 10 years, the policy terminated and the account balance was paid to the policyholder as a maturity benefit. If the policyholder died before 10 years but after six months of the effective date of coverage, the beneficiary would receive the account balance and the death benefit amount specified by the policy; if the policyholder died within six months of the effective coverage date, the beneficiary would receive the account balance and 40 per cent of the death benefit.

A toll-free call centre available from all telecommunications providers ensured that, at the time of purchase, clients understood the basic features of the product, and allowed clients to check their statement and confirm that deposits were credited to their account. This was important since product understanding among the poorer clients was limited, with most focusing on the savings rather than the life insurance aspect. In addition to providing good customer service – enabling the company to stay in touch with the client, update data, and ensure that the client understood the product – the call centre served to build trust in Max Vijay's products. Clients knew that through the call centre, they had ongoing access to professionals who could answer their questions and confirm their deposits.

The Max Vijay product was innovative in several ways. First, the amount and frequency of top-ups were at the client's discretion; stated alternatively, clients did not need to pay into the policy according to a pre-determined contribution schedule (i.e. a fixed monthly, quarterly or annual basis), as with most life insurance products. Second, the policy did not lapse over the 10-year period, since contributions were at the discretion of the policyholder. This feature was in stark contrast to other available financial endowment vehicles, which provided poor value to low-income people: these vehicles would lapse when people neglected to make a contribution – meaning that, when circumstances prevented the policyholders from making a payment, they would lose most of their contributions made up until that time.

Max Vijay emphasized the savings aspect of the product in its sales and marketing. By making contributions, policyholders reaped the benefits of saving, while Max Vijay also benefited financially (since the company's financial return depended upon these savings rather than upon the initial sale of the product). Nevertheless, if policyholders chose not to top up the policy with savings, they still retained the life insurance benefit over the 10-year period. Thus, the Max Vijay product represented both a vehicle to manage financial risk (though the life insurance component) as well as a method of savings, and was unique in its flexibility.

Anecdotal information suggested that policyholders were happy with the product. "I have not found any other way to get life coverage and a savings opportunity at such a low cost. Max Vijay gives me freedom from the fear of my policy lapsing even if I do not deposit the premium for some time. I have reduced the tobacco that I chew and add the saved money to my policy instead," said one policyholder. "I find it very convenient to recharge the top-ups at the neighbourhood stores," reported another.

However, Max Vijay's management knew that while customers were happy, they did not necessarily understand the product. Max Vijay, while certainly offering more flexibility than endowment life insurance products, provided its best value only if clients saved regularly – but many clients still did not top off their policies on an ongoing basis.

Focus on Reengineering Distribution

With performance falling short of expectations, project leaders found themselves needing to focus on distribution as the major area that needed to be re-evaluated to ensure that the product was financially viable. "Greater market penetration and more effective distribution channels, combined with careful cost management, will bring us to profitability," believed Sannoo.

With no experience as to the ideal way to reach this market niche, and no large existing distribution network, Max Vijay experimented with two types of distribution channels concurrently: push channels and pull channels.

Push channels included established microfinance institutions, local rural banks, financial product distributors, and NGOs, which offered the Max Vijay product as one of the financial services they represented. Individuals purchased their Max Vijay policy from one of these institutions by making the initial premium payment and completing a form; after a Max Vijay distributor and a Max New York Life representative approved the form, a call centre representative telephoned the client to ensure that the client understood the key benefits of the product. Then, the client received an insurance card and the policy from the push channel institution. Max Vijay had developed a national footprint for its product thanks to its relationship with push channels across India.

Pull channels included small, local retail stores. Policyholders topped up their policies when they purchased their regular daily items. Policyholders could top up their policies via two options. One was by purchasing a scratch card (available for 10, 20, 50 and 100 rupees) sold over-the-counter by the retailer. Following the purchase, the policyholder scratched the card to reveal a number, and telephoned the call centre to provide the card number and insurance identification number; the call centre representatives then credited the purchase amount of the scratch card to the policyholder’s account. The concept of payment using the scratch cards was easily understood by the policyholders and easily managed by the retailers. The second option (usually used for only for large savings amounts) was implemented via mobile phone: the policyholder paid the savings amount to the retailer, who sent a text (SMS) message to the call centre to update the account and then received a confirmation text in return. (Max Vijay had initially provided handheld devices that issued a receipt on the spot, but these devices were not readily accepted by either policyholders or retailers, who were frustrated by the 20 to 30 minutes required for the transaction to go through.)

Men tended to find the pull channels appealing, and were more likely than women to top up their policies. The effectiveness of the pull channels was being tested in Agra (population: 1.5 million), the third biggest city in Uttar Pradesh, India, located southeast of New Delhi. In Agra, awareness of the Max Vijay product had reached approximately 65 per cent because the insurer made a major investment in marketing that included the celebrity brand ambassador; heavy print and outdoor advertising; ground activities that included mobile vans; radio and cable television advertising; various contests; and other marketing strategies.

Since 2008, Max Vijay has focused mostly on retail (with the pilot test in Agra) and has engaged with some of the push channels – but an ideal mix of distribution was still being tested. In the beginning, product developers believed that both push and pull channels would be used for both policy initiation and top-ups; with experience, they have learned that pull channels are better for top-ups and push channels are better for initial sales. Strengths and weaknesses of the different channels are outlined in the table below:

	Strengths	Weaknesses
Retail	- coverage, proximity - very frequent contact with clients - peer-to-peer sales - scratch cards outlets - buy the product, understand it	- quite low capacity, sales techniques - expensive enrolment process; need to be backed by expensive marketing - policy initiation is time consuming for them (hard to come up with good value proposition for them)
MFI	- well educated front line staff - clear processes to build on - incentives work - low cost channel (not much training, marketing)	- no time for top-ups
Coop banks	high frequency of interaction staff can make the initial pitch	difficult target clientele, attitudes not so easy for top-ups, though better than other financial services providers
Financial product distributors	- very well educated front line staff - clear processes to build on - incentives work - low cost channel (not much training, marketing) - often extensive network in rural areas	- no time for top-ups, low frequency - risk of product cannibalization - more affluent clientele - risk of mis-selling
NGOs	- potential for top-ups, especially scratch cards - reach - trust - very poor population - low staff turnover, commitment from senior management - financing premiums at 0%	- clients 'take' attitude - very limited structure, hard to leverage processes, set incentives dependent on actual projects - low capacity of staff
Gender Resource Centres by Delhi government	educated staff, proximity, trust, lots of useful services, possible to establish commission structure, support of government, large outreach	some processes not aligned, no cash transactions, infrequent engagement with the market
Organized retail	might be tried later when there is general awareness about the product network	- low frequency (clients coming once per month); sales pitch does not work as need to repeat everything from the beginning - hard to incentivize staff - richer clientele

Information about sales and top-ups by channel between fourth quarter 2008 and first quarter 2010 is provided below:

Key Relationship	**Sales (# of Policies)**	**Top-ups**				
		Unique Policy count	**%**	**Value (100K Rs)**	**Transaction Value Rs**	**Value per policy Rs**
Peerless (financial product distributor)	55,371	7,570	14	125	632	1648
Retail (Non-Agra)	11,512	3,082	27	20	175	636
Retail (Agra)	5,340	2,834	53	20	200	695
Other push channels	17,192	1,319	7	6	236	460
Total	**90,135**	**14,805**	**16**	**171**	**392**	**1150**

The push and pull channels proved to have very different benefits and downsides. Push channels were beneficial because they provided a natural vehicle through which to initiate sales of the 1,000-rupee policy. As established institutions, the push channels employed a well-educated staff and were trusted by people in rural and low-income markets. Furthermore, the institutions had an incentive to sell this new savings product to clients for a variety of reasons; some liked the product because it gave their clients a way to save; for others like NGOs, the product was a vehicle for asset building; for still others, the product offered an additional revenue source. “The push channels receive incentives from Max Vijay to sell the product,” said Nirlipt Singh, Max Vijay’s Assistant Vice President for Distribution. “The fixed costs of these institutions are high, and their margins are getting smaller over time, so they are interested in new products that can be used to augment their income.”

“It is the job of the field agents at these institutions to solicit new customers,” explained Singh. “They hold group meetings to solicit interest in their products, including Max Vijay, and then the customer comes to the office to complete the paperwork. Few customers approach the institution to express interest in the Max Vijay product on their own.”

Because the push channels were operated in a very structured and efficient manner, these field agents had no time to collect the small amounts of savings used to top up the policies. In contrast, the pull channels were convenient for the top-ups, given that clients visited their local retailers frequently and found it very easy to top up the policy while making other purchases.

While Max Vijay leaders had hoped these small shopkeepers would eventually serve as a sales force for the product, they knew that the shopkeepers did not have the requisite skills to be truly effective marketers. Retailers earned 10 per cent on initial sales and a 3 per cent commission on the top-ups, and thus were encouraged to make sales. However, until a critical mass of policyholders was reached in a given area, the shopkeeper’s commissions did not reach a meaningful level; supporting these small independent retailers, and keeping their interest in this product alive, continued to be a challenge. This commission structure was similar across the different channels.

The relative effectiveness and appropriate mix of the existing push channels and pull channels had yet to be determined; it was also unclear how greater market penetration of the Max Vijay product in the future, as well as a focus on cost effectiveness, might change the composition of these distribution channels.

“With increased market penetration, more people will have friends and relatives who have a Max Vijay product; at that point, people will start walking into the financial institution and requesting a Max Vijay policy,” Singh believed, noting that this was starting to happen to a small extent in Agra.

Challenges

Despite disappointments about performance to date, the Max New York Life board remained supportive of the project. “This is about having a footprint in this market and exploring its viability,” said one board member. “We hope to have some cross-selling opportunities from this venture in the future, as Max Vijay clients amass some savings and become amenable to buying other financial products.”

Nevertheless, Max Vijay had to quickly address several challenges related to distribution if the product was to become viable. After lunch, Sannoo and Mehta met with Singh and Mittal to discuss them.

“The shopkeeper has no experience selling insurance, and the buyer has never bought insurance,” summarized Mittal after the men greeted each other. “Setting expectations on both ends is important. The Max Vijay product requires a mindset change for both the seller and the buyer, which will take time.”

One challenge related to the financial aspects of the product. “For many low-income families, the minimum 1,000-rupee entry fee is proving to be a major obstacle,” said Singh. Product developers questioned whether the initial premium was realistic and in line with the real paying capacity of the target group. And, for clients who made this initial purchase, subsequently promoting top-ups was critical to providing value for clients and to ensuring that the product is sustainable for Max New York Life.

The men had to determine how to enhance the ability of both the push and pull channels to promote the product. “Selecting the appropriate retail outlets to serve the Max Vijay product is a challenge,” said Mittal. “There is a choice of retail outlets in a given area, and we need to determine the profile of the shopkeeper who can optimally encourage top-ups. We must figure out how to effectively build a national system for top-ups and use push channels for the initial sales.”

Another challenge related to consumer trust in an insurance product. “All people need a safe place to store their money, but low-income households are especially wary, and their lack of sophistication means that they might not understand the product,” said Sannoo. “Bad experiences of friends and neighbours have made many low-income Indians suspicious of life insurance. The distribution strategy must encourage trust. We must determine whether representatives in the push and pull channels are doing all they can to promote our clients’ trust.”

"Life insurance is not easy to sell," Singh agreed. "People may approach financial institutions for a loan, but no one perceives that there is a real requirement for life insurance. Furthermore, the field agents' basic skills in terms of sales are very limited – they are used to giving money to people in the form of loans, rather than taking money for the sale of a product. Therefore, the training of the field agents with regard to selling and to educating the consumer is critical."

Still another challenge was to review expenditures, which were quite high. Most of the costs associated with the product involved the initial push involved in the sale of the policy. Furthermore, ongoing marketing was needed to instil regular saving behaviour. The team knew that substantial marketing would be needed, since research revealed that both trust and regular saving behaviours could be solidified after approximately 3 to 5 years of consumer education.

The men knew that they had to make adjustments as soon as possible so that Max Vijay would not lose its first mover advantage into the low-income market. The Max New York Life leadership was now shooting for break-even in 2011 at revenue amounting to US$40 million.

"We have slower growth than expected, coupled with high expenses," summarized Mehta. "We have a good product, but it is still an open question as to whether we can build sustainable distribution channels. We've learned a lot, but we need to push forward and figure out how to obtain a return on our investment as soon as possible." Mehta thought that government intervention might be needed, both in terms of distribution infrastructure and subsidies to seed the market.

"Certainly, there is a huge potential for profit," said Sannoo. "But what is the right mix of push and pull distribution strategies? How can we increase access to the product? Are we selecting the right intermediaries, and are we working well with them? Should we replicate the Agra pilot in other locations? How can we best educate our potential clients, and how can we make it easy for them to purchase the product? Are there possibilities for segmenting the market by gender and/or income? How can we use technology to our best advantage? And how can we take the lessons we've learned and develop a national marketing and distribution strategy for the product? Let's assess our challenges and then consider what strategies can help us get to where we want to be."

The ILO's Microinsurance Innovation Facility was established in 2008 to further the extension of insurance to millions of low-income people in the developing world, with the overall aim of reducing their vulnerability to risk. With support from the Bill & Melinda Gates Foundation, the Facility supports organizations throughout the developing world that are using microinsurance in innovative ways. For more information, see www.ilo.org/microinsurance.