

Microinsurance innovation and the implications for policy makers and regulators



Making financial markets work for the poor



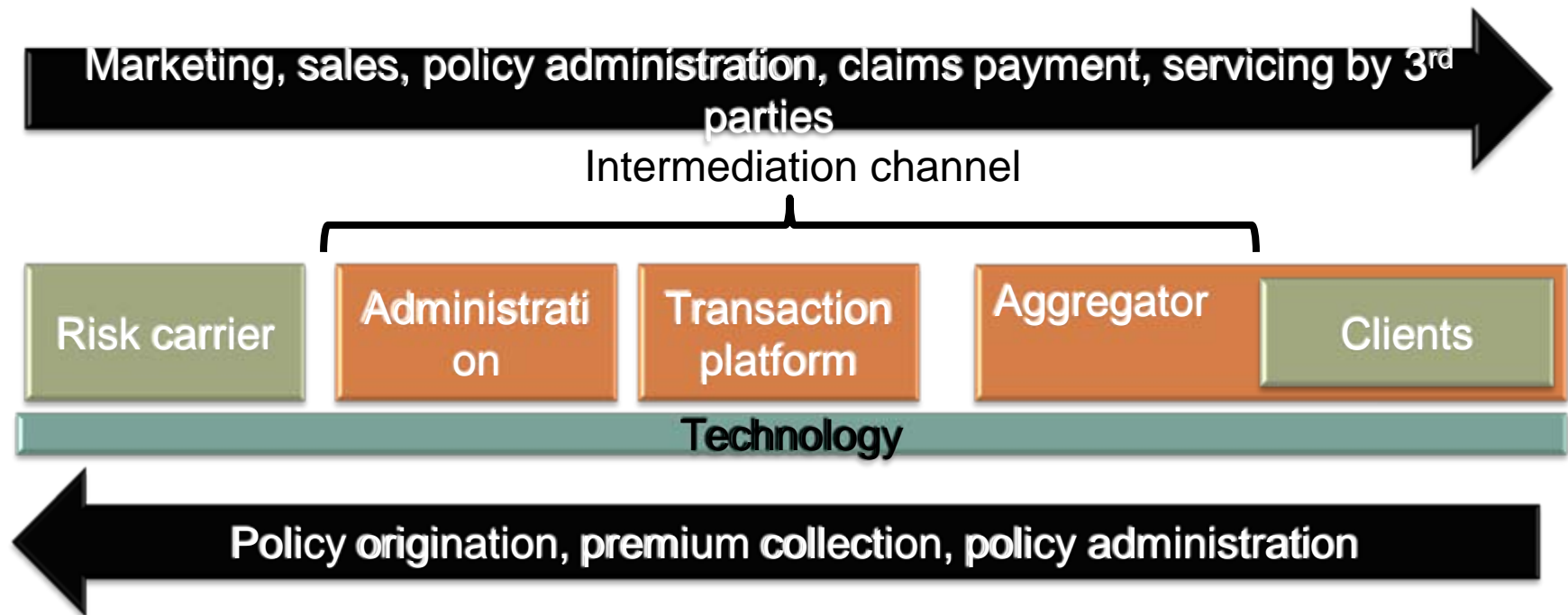
Presentation at FSI Microinsurance Meeting
Basel, 6 July 2010

Two key questions



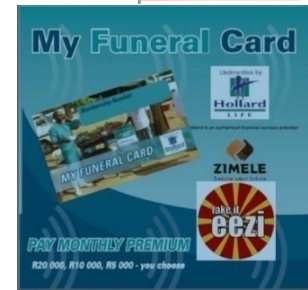
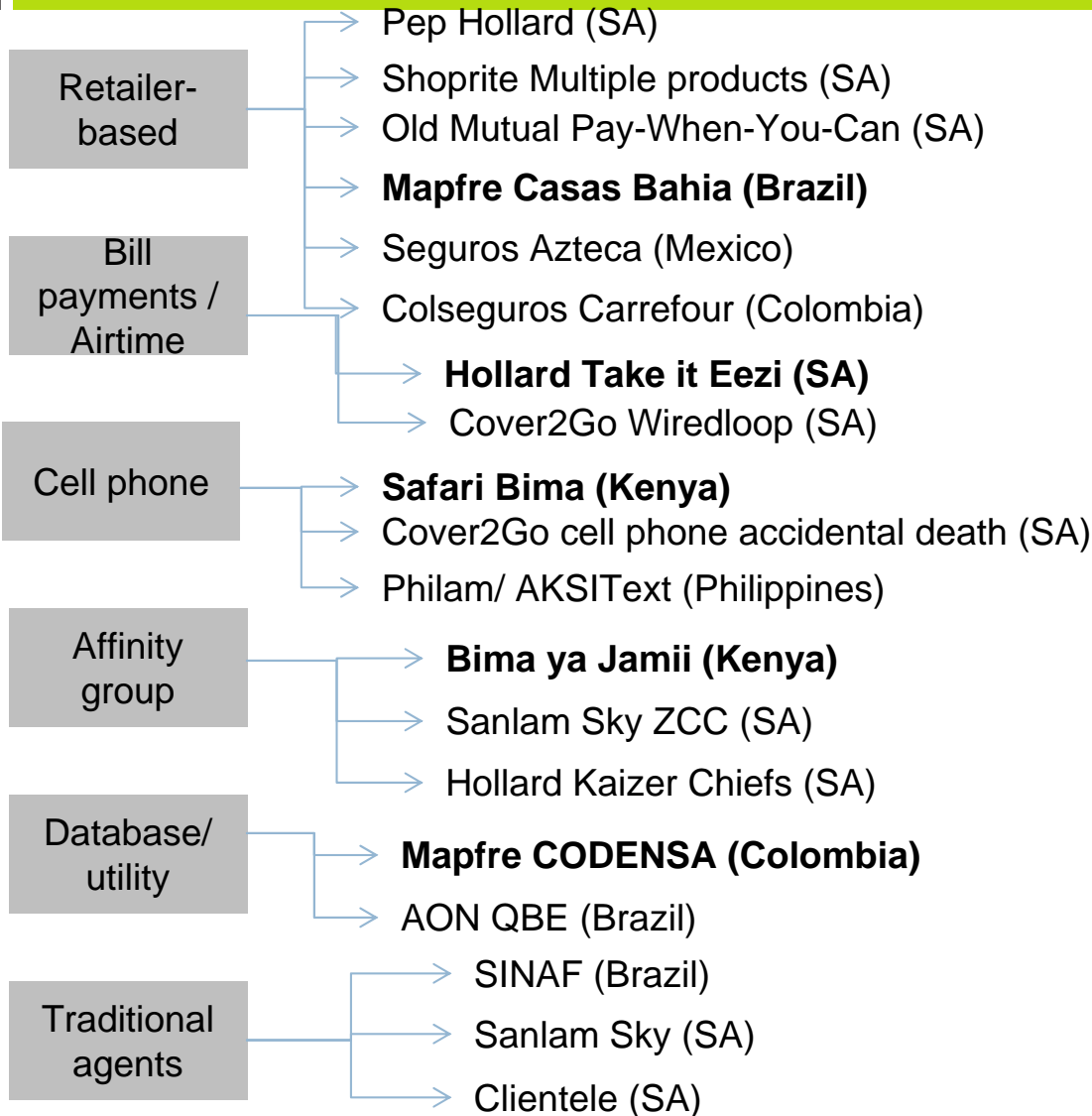
- Achieving take-up
 - ▣ How to get people to voluntarily buy an insurance product and remain clients of that insurer (take-up, persistency, etc)
- Consumer protection
 - ▣ How to ensure that the client makes an informed decision and is able to utilise the product

Innovation across the MI value chain



Typology of models

MI innovation



Mapfre and Casas Bahia (Brazil)

Context:

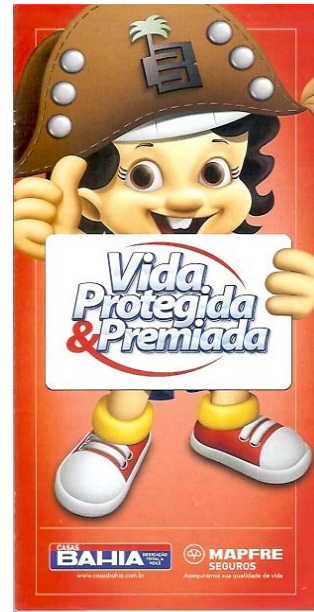
- Don't want to talk about death
- Strict labour legislation plus broker power results in complex structuring to avoid labour relationships

Casas Bahia:

- Largest appliance retail chain in Brazil with 510 stores
- Low-income focus, 22 million active customers

Insurance:

- Actively sold (voluntary) in store also to non-credit clients
- Premium: \$50 pa per person
 - ▣ **Life cover:** Food basket for three months at \$110 per basket
 - ▣ **Personal accident cover of:**
 - Up to ten days of hospitalisation, with a pay-out of \$28 per day hospitalised (total cover: \$280)
 - \$5,560 cover in the case of accidental death
 - This cover doubles to \$11, 120 if the accident occurred in public transport
 - ▣ **"Benefits in life":**
 - Entry into a monthly lottery draw for \$830
 - Up to 50% discount on medicines (most popular component of the product)
- Sales agent receive "commission" (could be significant part of income)
- Policy take-up has been very successful since the launch in November 2008



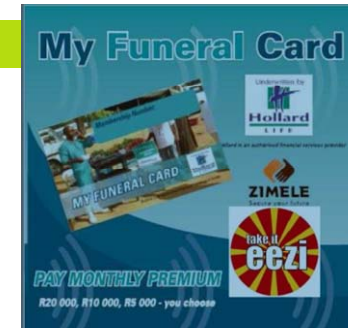
Hollard Take it Eezi (SA)

Take it Eezi

- Branded initiative for airtime & pre-paid electricity
- >18,000 vendors, innovative SIM-based POS

Insurance

- “Starter pack” containing the policy number, document and relevant product information. Currently only funeral policies
- “Tick-box” sales to avoid market conduct regulation
- Vendor registers details using POS, call centre phones to add beneficiary details
- SMS confirmation to all parties, monthly SMS reminders for premium payment
- 5 types of funeral cover, single or family:
 - Single (18-65 yrs): R10,000 (\$1182) @ R18/month (\$2.13) or R20,000 (\$2363) @ R28 (\$3.31)
 - Family: R5,000 (\$667) @ R25 (\$3.33), R10,000 (\$1333) @ R38 (\$5) or R20,000 (\$2667) @ R78 (\$10.4)
 - Can add additional extended family members up to age 74 at extra charge
- Monthly premiums are payable at any Take it Eezi vendor. Claims are settled directly by insurance company.
- Initially modest sales but signs of improvement
- Challenges: limited vendor incentive, higher than expected mortality rates, absence of a trusted



Member & Family Benefits			
	Level 1	Level 2	Level 3
COVER 1 - Single Member			
Single Member	R1 500.00	R12 000.00	R12 000.00
Spouse (18 to 65 yrs only)	Yes	Yes	Yes
Family Protection	Yes	Yes	Yes
Premium	R18.00	R28.00	R28.00
COVER 2 - Family			
Member and Spouse (Age 18 to 65 yrs only)	R3 000.00	R12 000.00	R20 000.00
Children	Yes	Yes	Yes
Spouse (18 to 65 yrs only)	R3 000.00	R12 000.00	R20 000.00
Children (12 to 17 yrs)	R 2 500.00	R 2 000.00	R 1 500.00
Spouse (18 yrs only)	R 2 500.00	R 2 000.00	R 1 500.00
Spouse (18 yrs only) & children	R 3 000.00	R 2 500.00	R 2 000.00
Family Protection	Yes	Yes	Yes
Premium	R25.00	R38.00	R78.00

Additional Dependent Benefits
Members have the option to voluntarily purchase cover for their Partners, Spouse and extended family. A maximum of 4 extended family Members may be added.



AIRTIME
ELECTRICITY
PAYPHONE
HOUSE COVER
FUNERAL COVER
INT'L CALLS
STARTER PACKS
EEZI-WIN

RIGHT HERE
RIGHT NOW

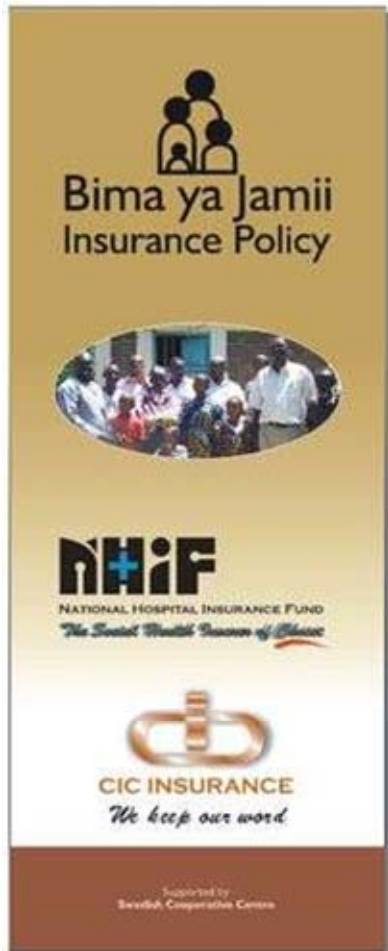
Your new agency force?

Kenya Orient Safari Bima

- The Safari Bima accidental **death and disability cover**, launched Nov. 2008 targeting individuals/entrepreneurs going on trips
- Product can be obtained in one of two ways:
 - **SMS**: 24 hrs cover of \$1366 by sending ID number, cell phone number & name to premium rated short code.
 - Information on policy activation advertised through posters , pamphlets and in Kenya Orient insurance offices.
 - Premium subtracted from cell phone account or prepaid airtel
 - Confirmation SMS that cover has started
 - **High cost of conversion of airtime**
 - **Scratch card** for \$1366 cover (added following broker pressure)
 - 1 day: \$0.41 (most sold)
 - 1 week : \$2.2
 - 1 month : \$9.6
 - Sold through Kenya Orient insurance offices or agents – who may resell to shops, groups, etc.
 - Policy activated by sending SMS containing the PIN from the scratch card, national ID number & phone number.
- SMS sold more (7k) than scratch card (3k) but with lower benefit amounts. Correlate with marketing campaigns
- Complicated claims process: No claims received



CIC Bima ya Jamii micro health (Kenya)



- PPP between CIC (cooperatively-owned insurance company) National Hospital Insurance Fund to extend to informal sector
- Distributed through SACCOs, welfare groups and MFIs
- Annual premium of KSH 3,650 (US\$50) per family
- Cover:
 - Comprehensive family medical insurance (in-patient): admission and treatment for any illness or accident up to 6 months in 300 NHIF-accredited hospitals
 - Loss of income hospitalisation benefit for principal and family members – KSH2,000 (\$27.3) per week (max. 25 weeks)
 - Accidental death benefits for beneficiaries of principal – KSH100,000 (\$1366) lump sum
 - Loss of income disability benefit – KSH100,000 (\$1366) lump sum
 - Funeral expenses for the member – KSH30,000 (\$410) paid within 48 hours (additional cost to cover additional members)
- Cash benefits paid directly by CIC to policy holders, through SACCO account or M-PESA
- 2009: 19,000 policyholders about 100k lives covered

Mapfre and CODENSA (Colombia)

- CODENSA: largest electricity company in Colombia with around 2m customers in Bogota
- Insurance motivated for client retention. Part of larger customer loyalty programme.
- Revenue sharing between CODENSA and Mapfre
- CODENSA not initially involved in product development but got involved to tailor products to clients' needs
- Products: funeral insurance, life, extended warranty, personal accident, older vehicles (assistance, liability)
- CODENSA –branded product underwritten by Mapfre



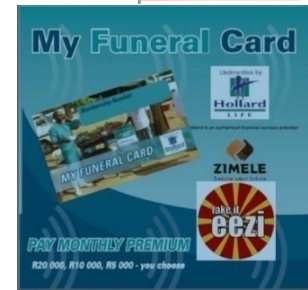
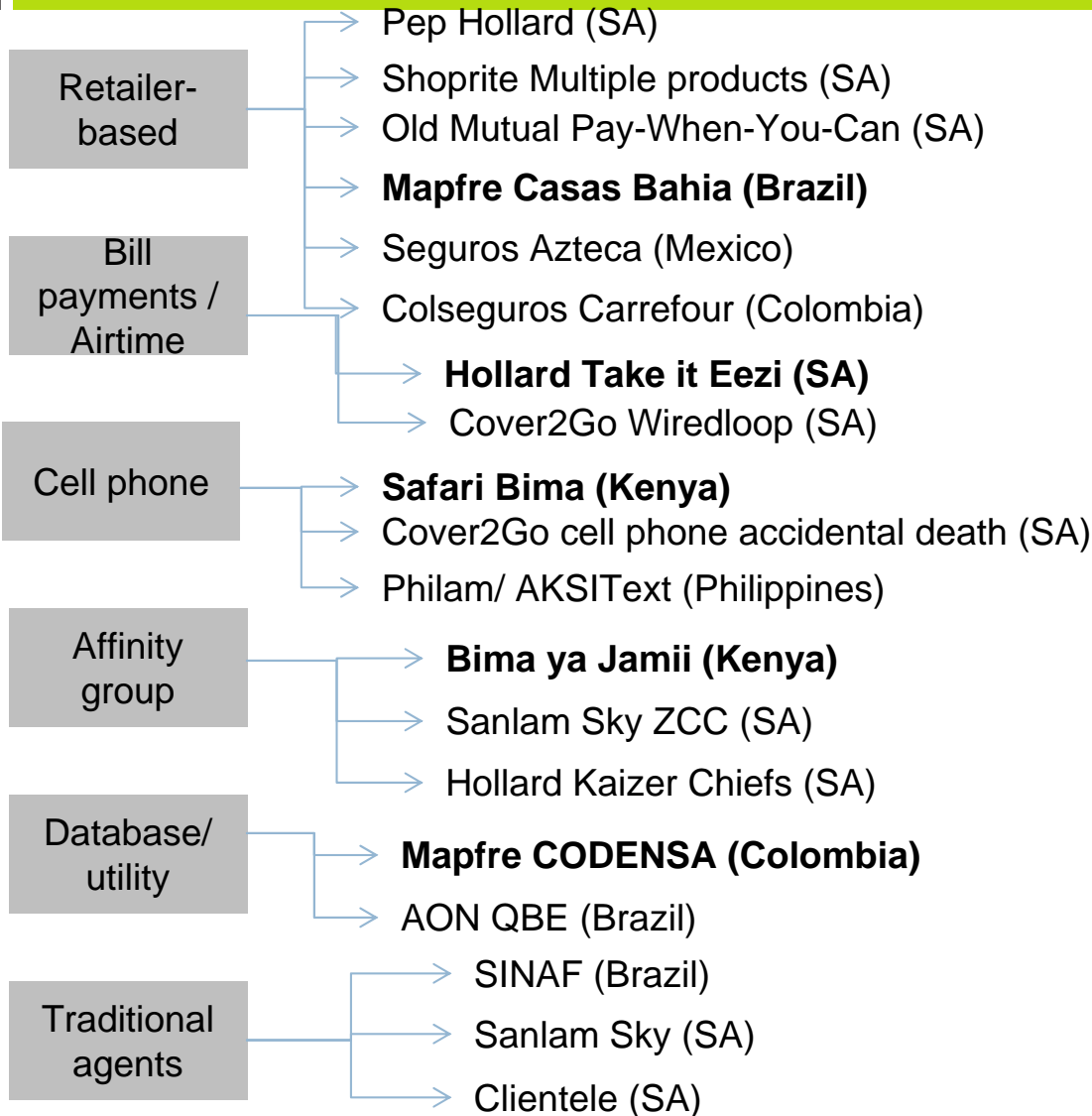
Mapfre and CODENSA (Colombia)

- To ensure customer satisfaction CODENSA plays active role in sales and administration of policies.
- Initially only added pamphlet to electricity bill
- Currently marketed through face-to-face sales force and outbound call centre (phone call followed up by agent visit. Agents also do door-to-door sales)
- Marketing channels administered by CODENSA(with support from Mapfre)
- Structured as group policy to CODENSA so deemed to be 'direct sales' and, therefore, CODENSA sales agents are not deemed to be insurance agents.
- Shared administration
- Claims received via CODENSA call centre but Mapfre deals with payments.
- Initial poor take-up resulted in CODENSA research and changes to products following from that.
- 300k families made monthly insurance premium payments between 2001-2008 of which 90% was low-income



Typology of models

MI innovation



Cross-cutting themes

□ **Need to rethink nature of intermediation**

- Spread across several entities not traditionally regulated by insurance supervisor (impact of other regulation)
- Definitions of brokers and agents vs direct sales vs outsourcing (avoidance of intermediation)
- Importance of face-to-face active sales (e.g. telesales experience)
- Structure and level of remuneration, sharing in revenue

□ **Aggregators lead interaction and incentivised to act in clients interest**

- Brand Trust and reputational risk
- Control price increases and ensure claims payment (e.g. Pep)
- Research to develop better products (e.g. CODENSA, Pep)
- Yet insurance regulation tends to be biased towards insurers and traditional intermediaries

□ **Group underwriting and contractual relationships**

- Limited data and absence of individual underwriting: mostly short-term policies
- Underwrite on group basis even though may be individually sold
- Open voluntary groups, master policies

□ **Technology important facilitator but is not always cheap**

- Communication (Pep), data (Take it Eezi), payments (Safari Bima): not always lower cost
- Claims management (Jet/Hollard claims runner)

□ **Product innovation**

- Casas Bahia: Life (food hamper) + personal accident + income replacement + medical discounts + lottery
- CODENSA and Jet: Household structure and content (rental market, technology enabled claims management, sum assured)
- CIC: Public health insurance + PA + funeral

Thank you!

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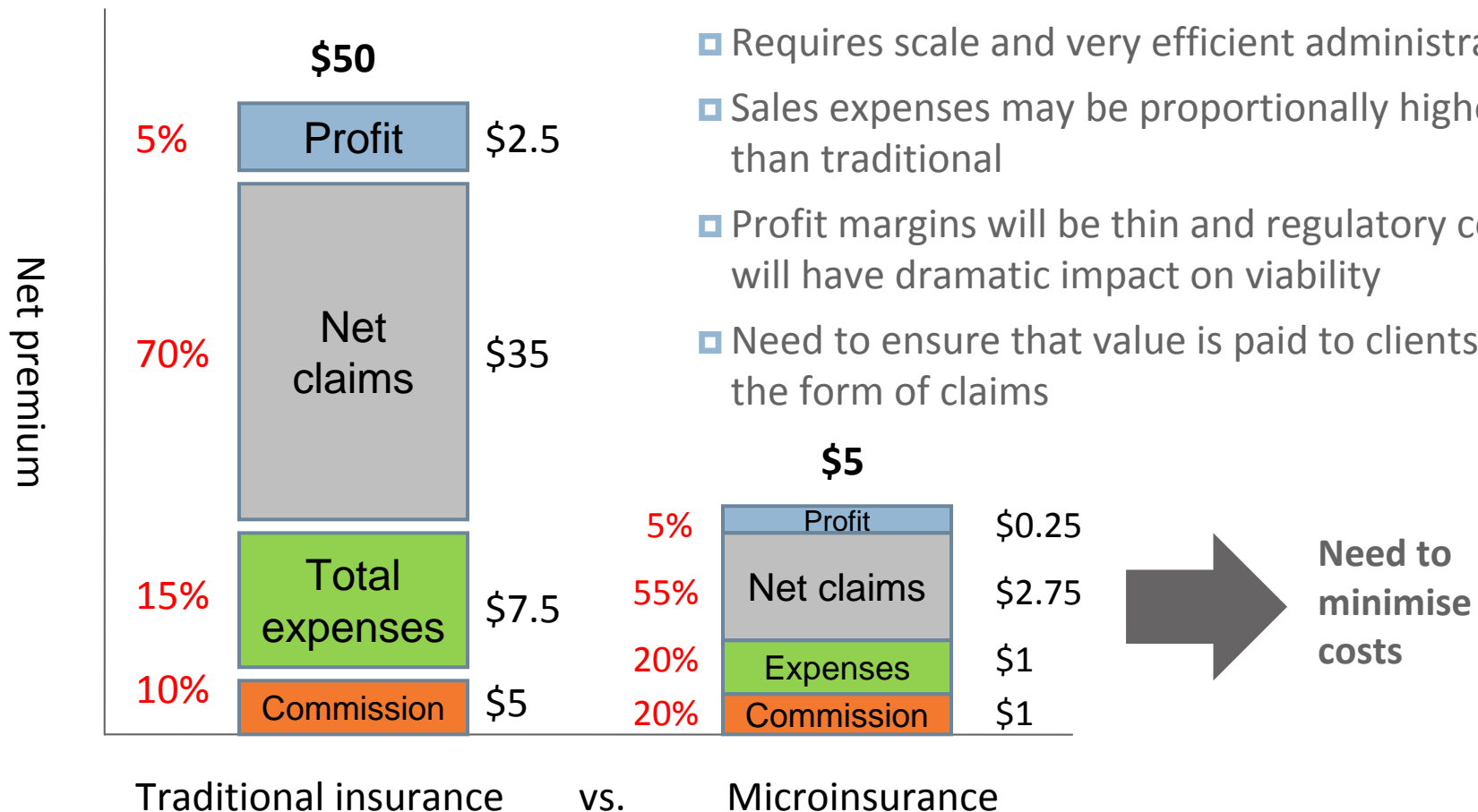
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The microinsurance bottom line

Efficiency is key:

- ▣ Premiums from as low as \$0.2/month
- ▣ Requires scale and very efficient administration
- ▣ Sales expenses may be proportionally higher than traditional
- ▣ Profit margins will be thin and regulatory costs will have dramatic impact on viability
- ▣ Need to ensure that value is paid to clients in the form of claims



Brazilian example

