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BEYOND SALES: NEW FRONTIERS IN
MICROINSURANCE DISTRIBUTION
*LESSONS FOR THE NEXT WAVE OF MICROINSURANCE
DISTRIBUTION INNOVATION*

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(Centre for Financial Regulation and Inclusion)

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PREFACE

The primary goal of the International Labour Organization (ILO) is to contribute with member States to achieve full and productive employment and decent work for all. The Decent Work Agenda comprises four interrelated areas: respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Broadening the employment and social protection opportunities of poor people through financial markets is an urgent undertaking.

Housed at the ILO's Social Finance Programme, the Microinsurance Innovation Facility seeks to increase the availability of quality insurance for the developing world's low-income families to help them guard against risk and overcome poverty. The Facility, launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation, supports the Global Employment Agenda implemented by the ILO's Employment Sector.

Research on microinsurance is still at an embryonic stage, with many questions to be asked and options to be tried before solutions on how to protect significant numbers of the world's poor against risk begin to emerge. The Microinsurance Innovation Facility's research programme provides an opportunity to explore the potential and challenges of microinsurance.

The Facility's *Microinsurance Papers* series aims to document and disseminate key learnings from our partners' research activities. More knowledge is definitely needed to tackle key challenges and foster innovation in microinsurance. The *Microinsurance Papers* cover wide range of topics on demand, supply and impact of microinsurance that are relevant for both practitioners and policymakers. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

José Manuel Salazar-Xirinachs
Executive Director
Employment Sector

CONTENTS

Acknowledgements.....	v
1 > Introduction.....	6
2 > rethinking distribution.....	8
3 > Meet the models.....	12
4 > Defining features of the distribution models.....	17
5 > Emerging themes.....	22
6 > moving forward.....	29
References.....	31

ACKNOWLEDGEMENTS

This paper captures the output from a series of case studies conducted during 2009 and 2010. The first phase took place during June-August 2009 and entailed a desktop scan, supplemented by telephonic interviews with international microinsurance experts, to identify interesting, alternative distribution models. Based on the outcomes of the first phase, the second phase of the study entailed the documentation of the distribution experiences of microinsurance models in Brazil and Colombia during the first half of 2010. The first phase of the research was made possible by funding provided by Swiss Development Cooperation, managed by the International Labour Organization and Zurich Insurance Company. The second phase of the research was funded by the International Labour Organization's Microinsurance Innovation Facility. The paper reflects the valuable comments and inputs from Aparna Dalal, Michal Matul, Craig Churchill, Pranav Prashad, Michael McCord and Dirk Reinhard.

1 > INTRODUCTION

Achieving scale through cost-effective distribution is one of the biggest challenges facing insurers in low-premium environments where customers are typically unfamiliar with insurance products and often sceptical of providers. In an effort to effectively reach as large a client base as possible, the emphasis is increasingly falling on innovative new distribution models as alternatives to traditional microinsurance distribution approaches, which typically rely on distribution through microfinance institutions (MFIs).

During the last decade, insurance providers and their distribution partners internationally have been experimenting with developing and extending products to clients in new and innovative ways. This paper considers the experiences of a group of leading microinsurance innovators and, in particular, the role that new distribution approaches has played. It takes stock of what innovation in microinsurance distribution means and considers the performance of fourteen new microinsurance business models in South Africa¹, Colombia, Brazil and India in the distribution context. It also provides a summary of the cross-cutting issues and trends emerging across the different distribution models.

The models reviewed for this paper were selected based on their unique and interesting approaches to both the product and distribution processes. Separate case studies setting out their experiences were produced on all of these models. Information for the case studies was collected through interviews with insurance providers, their distribution partners and, in some cases, with third-party administrators or brokers. The interview information has been supplemented by information 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 and value of different models and products (e.g. number of policies sold, claims ratios, policy persistency, profit generated) could not always be included.

The main conclusions that emerge from the review of the fourteen distribution models are:

- A number of new microinsurance distribution models have evolved that rely on the utilisation of partnerships with organisations not traditionally in the insurance space.
- These partnerships can take different forms, including joint venture agreements where partners share in the profits generated through the partnership, or by treating the partner as an intermediary who receives a fixed percentage of commission.
- Four categories of alternative distribution channels were identified:
 - o Cash-based retailers, e.g. supermarkets and clothing retailers offering simplified personal accident and life (funeral) insurance products;

¹ The experience of four South African microinsurance business models were documented as case studies as part of a study funded by the FinMark Trust (<http://www.finmark.org.za>) during 2009. The FinMark Trust is a South African-based organization, originally established with funding from the British government's Department for International Development (DFID). Its aim and mandate is "making financial markets for the poor".

- o Credit-based retailers, e.g. furniture and electronic goods stores offering credit life, extended warranties, personal accident and life insurance products;
 - o Utility and telecommunications companies, e.g. electricity, gas, fixed-line and cellular telecommunications companies offering disability, unemployment, personal accident and, in some cases, household structure insurance; and
 - o Third-party bill payment providers offering personal accident and life insurance products.
- The nature of the relationship between the distribution partner and insurance company evolves over time as the distribution partner starts to realise the benefits of adding microinsurance products to their existing product range and/or services. Over time, this means that the distribution partner will have an incentive to start playing a larger role in the product development phase. Some of the more successful models reviewed in this paper are ones where the distribution partners views the insurance offering as an explicit client retention strategy.
- Distribution partners are able to extend the sales and premium collection reach of insurance companies and new, alternative distribution models have therefore generally focused their distribution innovation on these distribution components. Sales and premium collection are the phases in the distribution process that matter most to the business partners, but are not the phases where client value is realised. Clients realise value at the servicing and claims processing components.
- In order 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 using distribution partners as "one-stop shops" that not only sell policies and collect clients' money, but also allow clients to make changes to their policies and become the point where claims are paid out. Not all of the distribution channels reviewed in this document will be able to do so and it is likely that channels that are able to serve clients more comprehensively will be more successful than those that do not take the clients convenience into account.

The remainder of the paper is structured as follows:

- Section 2 examines what distribution and, in particular, the concept of alternative distribution means in the microinsurance context.
- Section 3 provides an overview of the fourteen microinsurance distribution models considered for this paper.
- Section 4 focuses on the emerging categories of alternative microinsurance distribution and their respective strengths and weaknesses.
- Section 5 considers the key themes and issues emerging from these new distribution models.
- Section 6 concludes with a look at the future of microinsurance distribution.

2 > RETHINKING DISTRIBUTION

Defining the alternative in microinsurance distribution. There is no fixed definition of what qualifies as an alternative distribution model as it is, in fact, the diverse, innovative and evolving nature of such models that defines them. For the purpose of this study, alternative distribution was loosely defined as voluntary insurance models utilising partnerships with institutions traditionally not in the insurance space. Examples of this type of model include retailers (furniture, supermarkets), utility companies, bill payment networks and cell phone airtime providers. These models typically share the following characteristics:

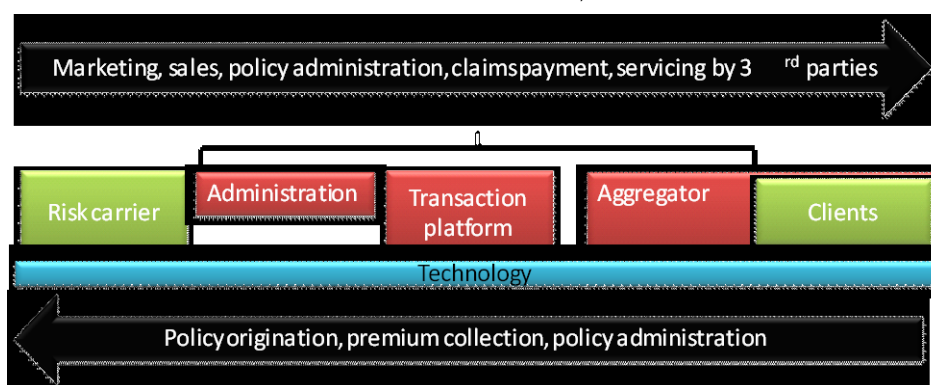
- Scale through aggregation: Ability to achieve scale by targeting large client concentrations i.e. specific non-insurance client groups such as clients of retailers, cell phone companies, utility companies etc.
- Presence of infrastructure footprint: When entering into partnerships with organisations with large client concentrations, alternative distribution models typically rely on the presence of an infrastructure footprint that is larger than what could be achieved by an insurance company in isolation. The infrastructure could be physical (e.g. store buildings) or virtual (e.g. a cell phone network).
- Transaction platform: The sales channel typically doubles as a premium collection platform e.g. adding premiums onto a utility bill.
- Standalone voluntary product: Models distribute voluntary insurance products sold on an “opt-in” rather than “opt-out” basis. That is: buying the insurance is 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, some of the models do not have this benefit and, in these cases, it can be concluded to have negatively impacted the success of the models.

Distribution does not only entail sales. Distribution is a much wider concept than simply getting the insurance product to the client. As can be viewed in Figure 1 (below) distribution refers to all interactions that have to take place between the underwriter of the risk and the ultimate client. This includes policy origination, premium collection and policy administration, as well as all marketing, sales and claims payment activities². Distribution is thus a much wider concept than just insurance sales. This process may involve several different entities. In the models reviewed for this paper, the different entities involved in the distribution process included insurance companies (risk carriers), outsourced administrators, third-party payment providers (who, in some cases, also aggregate clients) and 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 chain³.

² We do not highlight policy renewals as a separate component of the distribution life cycle as it does not generally apply to the policies covered in this paper.

³ For more information on this see Bester, Chamberlain & Hougaard (2007).

Figure 1: Innovation across the microinsurance distribution life cycle



Source: Bester, Chamberlain & Hougaard (2008) adapted from Leach (2005)

Distribution innovation takes place throughout the product life cycle. Innovation needs to be considered relative to the total product life cycle, which can be divided into five distinct stages: product (development)⁴, sales, premium collection, servicing and the processing of claims (

Figure 2). It may seem strange that we consider product development as part of the distribution innovation process. While the product and its development process are not typically considered part of the distribution process, we are of the view that the nature of the product informs the design of the distribution process. A mismatch between these components will have design implications for the distribution innovation process. Ideally, innovation needs to address all components of the product life cycle and specific experiences during any of these stages should feed back into the modification of any of the other components. In practice, however, the case studies have shown that businesses tend to mainly focus on sales and premium collection, with limited attention paid to claims and servicing. The product life cycle, therefore, provides a useful analytical framework to understand change in the area of distribution and will be used to consider the performance of the different models.

⁴ Although the remainder of this paper does not make reference to the product development processes in the reviewed business models, we include it here as it is the starting point of the distribution partnership. This paper deals with the issue of changes to products that occurred during the course of distribution partnerships due to a feedback loop from the other components of the distribution life cycle to the product development component.

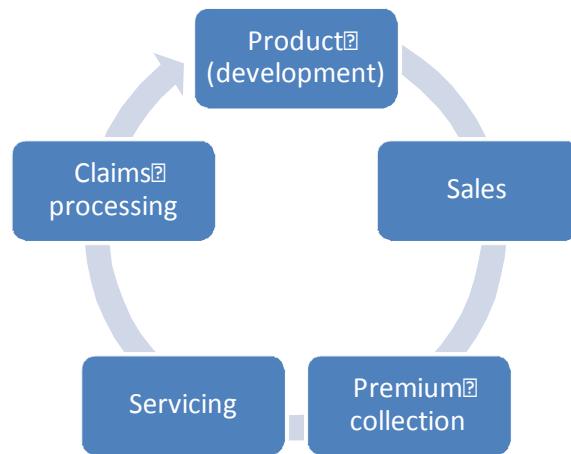


Figure 2: Insurance product life cycle

Source: Authors' own

What is balanced distribution? The performance of a particular distribution model needs to be assessed from both the client and business⁵ perspectives (also from the regulator's perspective, who typically acts in the interest of the client), because what works for the business may not work for the client. Table 1 (below) sets out some of the perspectives of the business and the client on what can be considered distribution success during each of the product life cycle phases. The table indicates a lack of alignment between the business perspective and the client's perspective on the most important phase of the distribution process. While the client acquisition and the premium collection can be most important to businesses, the claims processing phase (realising product value) of the value chain matters most to the client. In the short term businesses have the greatest incentive to invest and innovate in the sales and premium collection phases and the least incentive to change and optimise 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 this will increase customer loyalty and keep clients coming back.

	Business perspective	Client (or regulatory) perspective
Product features	<ul style="list-style-type: none"> -Realistic pricing -Ease of administration 	<ul style="list-style-type: none"> -Meets needs -Simplicity
Sales	<ul style="list-style-type: none"> -Most important phase for the business -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 realise 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 	<ul style="list-style-type: none"> -Easy access -Ease/convenience

⁵ This will include the insurer and the multiple potential entities involved in distribution.

	-Low cost	-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 	<ul style="list-style-type: none"> -Most important phase for the client -Ability to claim successfully -Easy access -Low transaction cost -Simplicity (not many documents required) -Quick turnaround

Table 1: Perspectives on distribution success

Source: Authors' own




Sales phase of distribution can be active or passive. The sales phase of distribution may be the client's first exposure to a particular insurance product. It is thus important that the sales process allows the client to make an informed purchase decision. The fourteen distribution models reviewed for this paper are characterised 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 a "passive" process, whereas the other extreme can be thought of as an "active" process.

Purely passive sales are insurance sales where the prospective client is provided with no prompting to purchase a particular product and no verbal communication on the product. An example of this is when insurance products are placed on a shelf at a retailer and clients purchase one along with their groceries at point of sale without any verbal communication by retailer staff on the product. In contrast, purely active sales are sales processes where a representative of the insurer (or distribution partner) verbally informs a client of the benefits of a particular product. The representative will typically try to convince the client that this product offers what they need. For most passive sales cases, the sales process is initiated by the client, while for most active sales cases the sales process is initiated by the intermediary.




The majority of the models studied for this paper can be plotted somewhere between the two extremes of the scale. The concept of passive vs. active sales is important as it holds 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 utilise is often influenced by regulatory considerations. Passive sales processes tend to evolve in countries, e.g. South Africa, where market conduct regulation is relatively strict about who can qualify as an intermediary and how insurance products should be sold. This type of regulation makes it more costly to sell insurance products on an active basis.

3 > MEET THE MODELS

Fourteen insurance models were considered in this analysis. Table 2 provides a brief description of the different models and the key parties involved. More detailed individual case studies are available for thirteen of these models and are referenced at the end of this document⁶.







Underwriter	Distribution partner(s)	Channel classification	Product and distribution description	Take-up	Policy servicing & claims management
 (South Africa)		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 cell 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.
		Third-party bill payment providers	Individual and family funeral insurance cover, launched in January 2007, sold through rural vendor network, Take-it-Eezi. Take-it-Eezi 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 in-force policies (2009)	Third-party administrator is responsible for servicing policies and managing claims. Take-it-Eezi is responsible for client registration and cash premium collections.

⁶ See the References section for the complete bibliographic references for these case studies.

 (South Africa)		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 non-advice ⁷ 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.
		Third-party bill payment provider	Family funeral product sold through rural vendor network, Wiredloop, 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).	Wiredloop is responsible for registering clients and collecting cash premiums. Cover2go is responsible for policy servicing and claims.
	Accessible through all South African cellular 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 ⁸ 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.






⁷ The sales person facilitating the transaction does not explain the policy (or insurance more generally) to the client.

⁸ Short-code is a telephone number that is shorter than a normal telephone number. When an individual sends a text message to this number, they will be charged an amount exceeding that of a normal SMS that is deducted from their available airtime or added to the post-paid telephone bill.

 (South Africa)		Cash-based retailer	Family funeral and accidental death cover, launched November 2007. Product is sold off-the-shelf on a non-advice basis at low-income retailer, Shoprite. The product is designed for seasonal workers and allows for flexible premium payments, 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)		Utility and Telecom-munications 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 ⁹ 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.
 (Colombia)		Utility and Telecom-munications 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 distribution channels ¹⁰ 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 at gasNatural call centre or Alico and Chartis directly.

⁹ Distribution channels included out-bound call centre, face-to-face sales and mail shots.

¹⁰ Distribution channels included out-bound call centre, face-to-face sales and mail shots.

COLSEGUROS (Colombia)		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 proportional 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)		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.
 MAPFRE (Brazil)		Utility and Telecommunications companies	Insurance against the theft of mobile phones ¹¹ - 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 cell phone.	Significant take-up; 300,000 policies sold to-date (2010)	Joint policy servicing and administration. Claims handled by Mapfre.

¹¹ The insurance policy does not provide cover against risk events other than theft of the mobile phone.







 (Brazil)		Utility and Telecom- munications companies	Individual or family hospital indemnity plan – launched in 2006 - sold to fixed-line operator, Brasil Telecom, clients 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.
 (Brazil)		Utility and Telecom- munications 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 post 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.
 (India)	Formal and informal retailers, MFI, Coop Bank, 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 channels) 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 (\$0.21 ¹²).	Moderate take-up; 90,000 policies sold (2010)	Policy servicing, claims and administration are handled by Max New York Life.

Table 2: Summary of insurance business models considered for paper

Source: Multiple sources; Authors' own summary

¹² Exchange rate base on second quarter, 2010, average interbank exchange rate.

4 > DEFINING FEATURES OF THE DISTRIBUTION MODELS

It is useful to consider how distribution varies by distribution channel over the product life cycle in order to identify trends across different channels and the strengths and weaknesses of each channel. These trends, strengths and weaknesses ultimately speak to the risk and opportunities each channel faces in terms of providing a minimum level of protection for clients and financial viability for insurers.

When considering the fourteen models under discussion, four categories of distribution channel emerge (see Table 3, below):

- Cash-based retailers;
- Credit-based retailers;
- Utility and telecommunications companies; and
- Third-party bill payment providers.

The distribution models have been categorised according to the distribution partner's primary business model and grouped by the similarity of their interactions with the client. Similarities in the types of products sold, sales interaction with clients and the premium collection and claims processes for each of the distribution channels are mapped out below. The table is followed by a short discussion on each of the channels.

		Products	Sales	Premium collection	Claims
1	Cash-based retailers (e.g. supermarkets and clothing retailers)	Simplified personal accident and life (funeral) insurance policies.	Limited, un-incentivised sales interaction between retailer staff and client.	Cash premiums paid in-store. Optional debit order payment available in some examples.	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, incentivised, 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 telecommunication bill and collected using existing bill payment system.	Claims directed to the insurance company. In some cases, payment is made directly to client's utility or telecommunications account rather than to client bank account.
4	Third-party bill payment providers ¹³ (including wireless access services providers or WASPs ¹⁴)	Personal accident and life insurance	Limited (un-incentivised), sales interaction between bill payment operator's employees and client	Cash or electronic collection point	Claims are made directly to insurance company

Table 3: Value chain descriptors by distribution channel

Source: Various sources; Authors' own

Although all of the distribution channels serve unserved or under-served clients, not all serve poor clients. The alternative distribution channels reviewed in this paper, especially the passive models, do not always serve the poorest of the poor or even poor clients. The nature of their clientele such as income, education levels and exposure to insurance varies according to channel. While third-party bill payment providers who service clients in an informal sector setting such as Take-it Eezi tend to reach poor clients including government welfare grant recipients, retailers based in formal sector settings such as Pep and Carrefour serve higher income clients. Their geographical location and the nature of their respective target markets impact product take-up as slightly higher income clients have higher levels of knowledge and existing exposure to insurance.

Cash-based retailers offer standalone, simplified insurance policies. Staff members of cash-based retailers generally do not actively engage or "push" merchandise sales during the sales transaction making it difficult to leverage the existing sales force. A lack of active sales effort by retailer staff (and potential reputational risk¹⁵) has led to cash retailers mostly using a passive sale model providing standalone, simplified and group-underwritten personal accident and funeral policies.

¹³ Third-party bill payment service providers allow organisations (utility companies, telecommunications companies, municipalities, insurance companies etc.) to fully or partially outsource the collection of payments, often through a network of retailers.

¹⁴ Wasp facilitates the payment of services (using airtime as money) through the use of a premium rated short code sent from a mobile phone.

¹⁵ In the case of cash-based retailers, no standing credit commitment exists between the client and the retailer. The retailer has to position its value-offering (and its brand) in such a way to attract customers "a fresh" for each transaction. Any insurance offering should add to the value proposition the store uses to incentivise repeat purchases from client.

Credit-based retailers offer mostly credit-linked insurance policies. 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 usually relates to the credit agreement (credit life policies) or goods sold on credit (extended warranties). In most cases, the policy cover period is linked to the credit repayment period. The sales force in credit-based retailers is also responsible for follow-up advice and assisting clients with claims.

Utility and telecommunication companies offer insurance policies linked to primary service. Utility and telecommunications companies offer large pre-existing client bases. In most cases the distribution partner has extensive information on clients that can be used to design appropriately priced insurance policies and targeted marketing campaigns. The insurance policies sold through utility and telecommunications companies often relate to the primary relationship between the client and the service provider (electricity, gas or telecommunication bill) and cover the client's contractual obligation to the provider in the case of death, illness, unemployment and/or disability.

Third-party bill payment providers tend to offer simplified life and personal accident insurance. Insurance providers have been able to increase product complexity when third-party payments systems are operated by individuals, compared to other similar systems with no human interaction (or policy document), as in the case of mobile phone-based insurance distribution using a short message service (SMS) sent to a premium-rated short code¹⁶.

Credit-based retailers currently display greatest potential for reaching scale and profitability, but do not serve lowest income clients. Credit-based retailers tend to have the existing management information systems (MIS) necessary to easily collect microinsurance premiums, as well as administer these policies. This means that large additional MIS investments are often not required. Furthermore, they also tend to have an existing financial services culture, making it easier for staff of this category of intermediary (compared to the other categories reviewed here) to serve microinsurance clients. However, given the basic qualification criteria for credit, it means that the lowest income clients are often excluded. In these cases (depending on their target market) cash-based retailers and bill payment providers (who also sell airtime) may be the better intermediary categories to reach the lowest income clients. In Table 4 (below) we consider the main strengths and weaknesses of each of the distribution channels.

		Strengths	Weaknesses
1	Cash-based retailers (e.g. supermarkets and clothing retailers)	Offers easy, low-cost access to existing customer base Retailer has good understanding of customer needs	Cash-based premium collection may suffer from higher initial lapse-rates Not oriented toward provision of financial services

¹⁶ 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 in the payment of goods and services, for entry into competitions, or for making donations.

		Motivated to offer higher value products to maintain/strengthen brand	
2	Credit-based retailers (e.g. furniture and white goods store)	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 inform product design and distribution approach Familiar with provision of financial services	Credit-linked insurance sales, even when voluntary, often deliver low value to clients Sales of insurance products besides credit risk may not be viewed as relevant to core business Insurance cover period linked to credit repayment period
3	Utility and Telecommunications companies (e.g. electricity, gas and fix line telecommunications companies)	Existing client information assists in product design and targeted insurance sales Efficient payment collection due to presence of account relationship with client	Low claims rates on personal accident products offered through these channels signal 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	Large distribution network with extensive formal and informal out-reach Facilitates use of e-money for premium payments	Low take-up due to passive sales Premium collection using airtime as currency very expensive Absence of trusted brand at sales point Insurance company has little control over informal third-party bill payment providers

Table 4: Strengths and weaknesses of distribution channels

Source: Author's own

Absence of active sales and automatic premium collection mechanism poses challenges for cash-based retailer distribution. Cash-based retailers face challenges both in terms of up-take (due to lack of active sales) and persistency (due to the absence of an automatic premium collection mechanism). Cash-based retailers therefore have had to amend their business models or implement innovative mechanisms to overcome these challenges.

Credit-based retailer distribution offers good business model but questionable client value. Insurance distribution through credit-based retailers typically achieves significant take-up due to incentivised in-store sales and low policy lapse rates due to the existence of a contractual obligation between the retailer and client and the presence of a pre-existing premium collection system. The retailer is familiar with the provision of financial services (mainly credit) and often takes over the limited administration and client servicing responsibilities. However, low claims ratios on most of these products, typically credit life insurance¹⁷, suggests low policy value to the client. An exception to these low-value policies are standalone insurance policies (not linked to the purchase and/or financing of goods) sold through these retailers such as the policies sold through the Brazilian credit retailer,

¹⁷ Policies that protect the credit provider (the retailer) from payment default in the event of unemployment, death or illness.

Casas Bahia, (where a credit purchase is not a prerequisite for the purchase of an insurance policy) or policies sold on a standalone basis in the Mexican credit furniture and white goods retailer, Elektra.

Utility and telecommunication providers offer significant take-up at high cost. Utility and telecommunications companies experience significant take-up of insurance policies, particularly if the products are actively sold by an agency sales force. However, this distribution model suffers from high distribution costs that can be attributed to active sales effort, requiring commission payments to brokers and/or agents, and the participation of many entities in the value chain (insurer, broker/administrator and distribution partner) that all have to be remunerated.

Third-party payment providers offer extensive reach but suffer from low client awareness. Third-party payment providers have had limited up-take of insurance policies. This can be attributed mostly to the absence of a trusted brand or active sales. In addition, the use of premium-rated short codes in cellular phone-based insurance distribution is an expensive vehicle for premium collection as the wireless access services provider (WASP) that converts airtime to hard currency often requires a substantial commission.

5 > EMERGING THEMES

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

Distribution innovation largely focused on sales and premium collection. The experience of the fourteen business models support the idea that innovation in the distribution process has mainly focused on the sales and premium collection phases, rather than servicing and claims processing. This is unfortunate as the claims phase is where product value is demonstrated, an important aspect of building a market for microinsurance. Servicing and claims are also not yet the focus of regulation for the case study countries reviewed. This may be expected down the line as regulators may start to focus on the question of value proposition to clients.

Distribution innovation has not been sufficiently client-centric. Most of the innovation observed in the fourteen insurance business models has focused on the components of the distribution process that offer immediate value or income to the insurance company. Client value is predominantly realised once the client is able to successfully claim on an insurance product. The majority of business models have focused on making it very easy to sell products to the client and sustain regular premium collection. Although some of the models use detailed client information in designing their products, all of the models still require long and complex documentation 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 Brazilian insurer Mapfre and furniture and white goods retailer Casas Bahia, allows for the processing of claims in-store, the place where the policy was purchased.

Models need to offer more services close to clients. To offer value to clients, distribution channels and the partnerships behind these channels may want to focus on becoming “one-stop shops”, with one location able to sell policies, collect premiums, service and process claims. Not all of the distribution categories reviewed in this paper are suitable for this type of comprehensive client interaction. The channels most suited are those where there is some type of central service point within close vicinity of the client and 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 staff of the distribution channel have basic information technology proficiency and are well-trained in the area of financial services and, specifically, the insurance products provided. Given the strengths and weaknesses of different distribution channels considered in Table 4, the channel most able to do this is the credit-based retailer. While cash-based retailers may be able to grow into this type of role, the absence of a financial services culture may make it more difficult. This may also be difficult for third-party payment networks as they often deal with informal vendors where skill levels are low. Similarly, telecommunications and utility providers may struggle to evolve into one-stop shops as client interactions mainly tend to happen through the post or telephone. However, these channels could make better use of call centres and short message services (SMS) to communicate with clients to improve their overall service offering.

Successful products and channels keep evolving. This theme played out in various ways in the business models considered for this paper:

- The nature of the relationship between the distribution partner and insurance company evolves over time as the distribution partner starts to realise the benefits of adding microinsurance products to their existing product range and/or services. Over time, this means that the distribution partner will have an incentive to start playing a larger role in the product development phase. This is particularly evident in Colombia where utility company Codensa after having sold Mapfre-underwritten insurance products, increased its participation in the development of new products in order to better represent the needs of its clients. In addition, distribution partners are incentivised to play a larger role in product development due to the reputational risk to its brand if it is unable to provide a good product to its clients. Some of the more successful models reviewed in this paper are ones where the distribution partners viewed the insurance offering as an explicit client retention strategy.
- Products offered by the partners tend to evolve in two ways:
 - (1) price, cover and exclusion adjustments to the product to improve value or manage claims ratios; and
 - (2) after an initial market experience, 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 furniture and white goods retailer Casas Bahia adjusted its insurance offering eight times over a five year period and utility company 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. A South African 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 initial unexpectedly high mortality rate was experienced in a segment of the low-income market of which relatively little was known before Hollard and distribution partner Pep's entry into this market.
- The insurer (and in some cases the broker/administrator) will adjust the distribution channels (or method of distribution in a channel) once they have 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 down on others. This assessment period before changes are made typically takes 6-12 months. In South Africa, underwriter 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 system providers to collect premiums.

Channels that serve slightly higher income groups experience significantly higher take-up.

For the products under consideration (see table 2) those which serve slightly higher-income groups experience higher take-up. In South Africa, Take it Eezi, which has experienced very low take-up rates, targets a slightly poorer segment of the market than the more successful Pep and Shoprite store models. In addition, the successful up-take of insurance through Brazilian telecommunications and Brazilian and Colombian utility companies cannot be solely attributed to their lowest income clients.

Regulatory hurdles may impede balanced product development and distribution. A recurring theme in all of the case studies (and countries covered) is the impact of regulation on the distribution process. Regulation impacts the context for every phase of distribution over the product life cycle, but has particularly strong impacts on the product development (type of cover and development of auxiliary benefits) and sales (nature of the distribution partnerships and sales interactions with clients) phases. Regulatory hurdles often make it difficult for insurance companies and their distribution partners to achieve a balanced distribution approach where both business and client needs receive equal emphasis.

The sales process is also dramatically impacted by regulation. In this case, the relationship between the insurance company and the distribution partner is affected by broker regulation, commission-specific regulation, labour legislation and market conduct regulation. Examples of this include:

- Restrictive broker regulation, as observed in Brazil, where a combination of broker power and labour law has led to the discouragement of the distribution of insurance without the involvement of a broker, thereby increasing intermediation costs.
- Minimum education levels for brokers and agents (market conduct regulation) preclude many potential agents from getting involved in insurance distribution and, consequently, increase sales costs. This impact is particularly evident in the case of the South African models included in this paper. 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 verbal disclosure or explanation of the product (see below).
- Non-insurance specific regulation such as stringent labour legislation, as observed in Brazil¹⁸, may also reduce the willingness of insurance companies to employ large sales forces directly and impact the nature of the distribution channel.
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Models display varying degrees of passivity in the sales process. While most passive distribution models in South Africa have no face-to-face explanation of the insurance products due to restrictive intermediation regulation, most models that are mostly passive in the other countries (Colombia, Brazil and India) rely on some form of verbal interaction at the point of sale. This includes an insurance counter in a supermarket staffed by someone that is able to provide information on the insurance products or an in-store insurance agent, as is the case of some of Carrefour insurance sales strategy in Colombia. 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, e.g. the Colombian utility company Codensa, use multiple distribution strategies, of which passive distribution could be one approach. For example, the company

¹⁸ Strict labour legislation causes insurers to place employment relationships at arm's length. The role of the estipulante and the broker position are strengthened by the strict labour legislation in Brazil. Though insurers are technically allowed to make use of tied salespeople (by conducting direct rather than broker sales and by paying their sales force incentive-based salaries rather than commissions), they are very reluctant to do so due to the collective bargaining conditions in the financial sector, which makes it expensive to have own employees as sales people (Hougaard C, 2010).

provides information on insurance products on its insurance bill, requires the client to phone the call centre or complete a form if she is interested in insurance, while also actively selling insurance to its client base through an out-bound call centre or active sales force.

Innovative use of client information. 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 (based in Brazil) use of its utility and telecommunications distribution partners' client information databases. The information is used to assess clients' insurance needs to develop policies that are appropriate for and address the needs of the specific target market.
- Focusing sales efforts. Examples in Colombia¹⁹ and Brazil²⁰ show that distribution partners' client information is used to inform and efficiently target sales strategies (e.g. out-bound call centres, direct mail, door-to-door sales agents or a combination of these) to clients whose needs most closely match the benefits offered by insurance product.
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Use of "layered sales" approach in product distribution. All the countries covered in this study provide examples of the use of more than one sales channel or partner to distribute an insurance product. Experimentation with multiple sales channels allows insurance companies to identify the most effective distribution channel for different stages of marketing and to use low-cost channels to reach a wide audience and then apply more expensive channels as a targeted follow-up strategy. One example of this, Max Vijay (a savings-linked life insurance policy) in India, found that traditional "push"²¹ (or active sales) channels experienced higher take-up levels, but has the drawback of higher policy initiation costs as more time is spent interacting with the client. "Pull"²² (or non-active/passive²³ sales) channels achieved success as regular premium collection channels, but experienced significantly lower take-up rates than push channels for initial sales. 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 sales after the initial product purchase has been made²⁴.

Microinsurance belongs to the distribution channel is the recurring statement made in the microinsurance arena and has proven to be true in Brazil, South Africa and Colombia where retailers, utility companies and telecommunications companies manage to assert their dominance and power in all phases of the distribution process. The increased bargaining power of distribution channels (relative to that of the insurance company)

¹⁹ Insurance product underwritten by Mapfre and distributed by Codensa.

²⁰ Insurance product distributed through Brasil Telecom and underwritten by QBE.

²¹ Push channels refer to channels where active sales take place (e.g. door-to-door agents or bank or MFI staff).

²² Pull channels refer to channels where the consumer is expected to buy the insurance policy on a non-advice non-"push" basis, e.g. retailers.

²³ Sales where the client is expected to purchase the insurance policy without the sales effort of an active sales agent.

²⁴ The Max Vijay product is a savings product which allows policy holders to add to their savings policy on an as-and-when basis as they have funds available. We refer to these additional contributions as "top-ups".

allows them to negotiate a higher proportion of the premium as remuneration than the more traditional insurance distributors would be able to do.

Trust in distribution channel could mask bad value offered by insurance products. Insurance business models in two countries, Brazil and Colombia, raise questions about the value provided to clients by certain microinsurance products, in particular, personal accident insurance. These concerns arise specifically from the low claims ratios (often below 15% of gross premiums) of products. Given high levels of trust in the distribution partner, the relatively low level of value offered by these products may be overshadowed by high levels of trust in the channel to provide a reasonable value offering. The trust relative to value question is also highlighted by insurance models in South Africa, where funeral insurance sold through rural vendor²⁵ Take-it-Eezi and funeral insurance sold through the well trusted, low-cost clothing and small appliance store Pep²⁶ experienced different levels of success. A likely reason for the differences in take-up can be attributed to the different levels of trust that clients have in the two distribution partners. Whereas 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 system²⁷. This may 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.

Incentivisation of distribution partners critical to success of channel. A critical theme emerging in the distribution story is the necessity of aligning the incentives of the distribution channel partners with those of the insurance company. Two critical links in the distribution process emerge:

- Alignment of underwriter and distribution channel incentives required. AON Affinity in Brazil was able to do this by creating insurance products that cover the liability (electricity, telephone bill or finance repayment) of the distribution partner (electricity, telecommunications companies or credit retailers) in case of a risk event to its client (unemployment, personal accident or disability). Furthermore, it was able to remunerate the distribution channel for providing client information and collecting premiums. The remuneration relationship between the insurer and distribution partner takes on different forms in the models reviewed. In some cases, as with South African insurer Hollard's relationship with clothing retailer Pep, the remuneration agreement is structured in the form of profit sharing through a joint venture, in addition to fixed percentage of commission received by Pep. In other cases, the distribution partner only receives a fixed commission. The remuneration model is likely to be 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 partner.
- Incentivise insurance sales by distribution channel staff. This has proven critical to the successful take-up of microinsurance products. This is demonstrated by the low level of funeral insurance sales through the

²⁵ Rural vendor Take-It-Eezi sells funeral insurance policies underwritten by Hollard.

²⁶ Low-income clothing retailer, Pep, sells funeral insurance policies underwritten by Hollard.

²⁷ 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.

South African rural vendor network Wiredloop where sales staff are often not directly remunerated, compared to the success of Brazilian retailer Casas Bahia which secured reliable and significant commission levels that contribute to a substantial portion of their overall remuneration.

Division of roles and responsibilities influenced by clients' level of trust in distribution partner and distribution partners' access to client information. In the models reviewed for this paper, distribution partners whose clients have a greater level of trust in them play a larger role in the provision of insurance to their clients. These entities 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 value to them) and, in some cases, also the servicing and claims payment. Furthermore, distribution partners who have greater levels of 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. Each partnership is likely to play out in a unique way, depending on the strengths and weaknesses of the insurer and distribution partner and their levels of interest in offering value to clients.

Products developed to fit clients' pockets. Insurance companies and their distribution partners display a high level of awareness of their clients' ability to afford their policies, both in absolute value and payment frequency. South African retailer Shoprite and underwriter Old Mutual created a policy that allows for flexible premium payment periods (any period between 1 and 6 months), while Colombian supermarket Carrefour allows individuals to take out varying levels of cover, determined by their available change at the till point, for a period of 30 days. In addition, Max Vijay (a savings-linked life insurance policy) in India provides individuals with continuous life cover without the need to contribute a monthly premium^{28,29} Max Vijay clients are allowed to top up their savings in fixed small value payments, as and when they have these funds available.

Increased focus on tangibility of product benefits. In the cases of South African Cover2go's Cashback funeral policy and Brazil's Casas Bahia's pharmaceutical discount life insurance policy, underwriters made use of in-kind benefits (or tangible, non-monetary payouts when a risk event occurs) to market insurance products. This marketing style takes two major forms:

- Providing auxiliary benefits³⁰ such as lottery tickets³¹ offered with the majority of microinsurance products in Brazil³², the return of a client's funeral insurance policy premiums (premium rebate) in South Africa after five years³³ in the absence of claims, and access to emergency services assistance (plumbing, electrical etc.,) with insurance policies bought from the electricity provider, AES Electropaulo, in Brazil.

²⁸ After the first initial payment, or policy inception, the insurance policy will not lapse for the duration of the savings agreement (indefinitely).

²⁹ Policy benefits available to the policy holder without the occurrence of the risk event covered by the policy.

³⁰ In Brazil most microinsurance policies include a capitalisation benefit that guarantees at least one policy holder a fixed "prize" allocated to the policy holders in a lottery draw.

³¹ See Brazilian case studies for more information on this.

³² Metropolitan Cover2go family funeral cover sold at low-cost supermarket, Shoprite, is an example of this.

³³ AES Electropaulo life, unemployment, personal disability and household structure insurance.

- Tangible (non-cash) pay-outs were observed in Brazil, Colombia and South Africa. In the case of Brazil, a policy benefit was advertised to include a food hamper for the beneficiaries of the deceased³⁴ for a period of 12 months following the death. However, this benefit is paid out to the beneficiary as a pre-paid credit card³⁵. In the case of Colombia, the Codensa funeral insurance policy pays out in the form of a funeral service, without the option of a cash pay-out. In South Africa, individuals receive a discount on a funeral with the purchase of a funeral policy at Shoprite stores.

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Model success requires significant investment. 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. One example of high investment costs in human capital, IT platforms and information systems was observed in the case of Casas Bahia. Mapfre had to train Casas Bahia sales staff to sell the insurance policy and improved information technology platforms were installed to facilitate the sale of the insurance product. Casas Bahia stores insurance clients' information in the information technology system and then only passes it on to Mapfre for reporting purposes and to facilitate claims management. Other examples of high investments costs can be found in South Africa, Colombia and India where utilities, retailers and telecommunication companies sold insurance, often for the first time, and had to train staff and implement improved IT systems.

Microinsurance distribution knowledge disseminated in multiple countries by large multinationals. The countries under review (Brazil, Colombia, India and South Africa) all show a pattern of large multinational involvement in microinsurance distribution. In the case of AON Affinity, a large multinational brokerage firm, certain microinsurance lessons were learnt from their operations in Brazil under AON Affinity de Brasil and were then exported to the rest of Latin America. Other large multinational 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 retail stores in multiple countries, including Colombia and Thailand.

³⁴ Another Brazilian example is Vivo telecoms and Mapfre replacing the mobile phone of the policy holder with another Mobile phone.

6 > MOVING FORWARD

The current wave of microinsurance innovation is characterised by insurance companies partnering with non-traditional distribution channels to deliver insurance products to their unserved or under-insured client bases. Distribution innovation has mainly occurred during the product development, sales and premium collection stages of the product life cycle, with less emphasis on the servicing and administration and claims stages of the life cycle.

Given the often large number of entities involved in establishing 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 document include a broker that facilitated the relationship between the insurer and distribution partner, third-party administrators and, in some cases, a payment platform. All of these entities have to be remunerated in some way for the services which they provide. The many entities involved have, in some cases, led to an increase in distribution costs. The problem is exacerbated if the distribution channels have a high degree of client ownership and are able to negotiate higher commission levels.

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

- Further efficiencies in distribution required. Going forward, the achievement of efficiencies in microinsurance is likely to require even more focus on the lowering of distribution costs. This may eventually require concerted efforts to start limiting the number of entities in the value chain, which is likely to have interesting implications for the way insurance companies choose to 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 at the various stages of the product life cycle, including 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 good value for the client. Rather than simply increasing the prices of its funeral products, retailer Pep and Hollard Insurance developed and re-launched a new product when they realised they had significantly under-estimated risk in the market. 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 such a strong interest in protecting its brand and its closer involvement in the insurance process may simply be to maximise its income. Insurers need to think carefully about whom they choose to partner with and whether these entities have the interests of clients at heart.
- Imagine distributors as "one-stop shops". In order 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 are not only able to sell policies and collect clients' money, but also allow clients to make changes to their policies

and become the point where claims are paid out. Not all of the distribution channels reviewed in this document will be able to do so and it is likely that channels which are able to 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 of models, it can be expected that regulators will start to scrutinise 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 inform 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 partners are unable to innovate on claims processing and servicing (as part of the larger distribution process). Such innovations from microinsurance can hold lessons across all market segments of the insurance business.

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MICROINSURANCE INNOVATION FACILITY

Housed at the International Labour Organization's Social Finance Programme, the Microinsurance Innovation Facility seeks to increase the availability of quality insurance for the developing world's low income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation.

See more at: www.ilo.org/microinsurance

