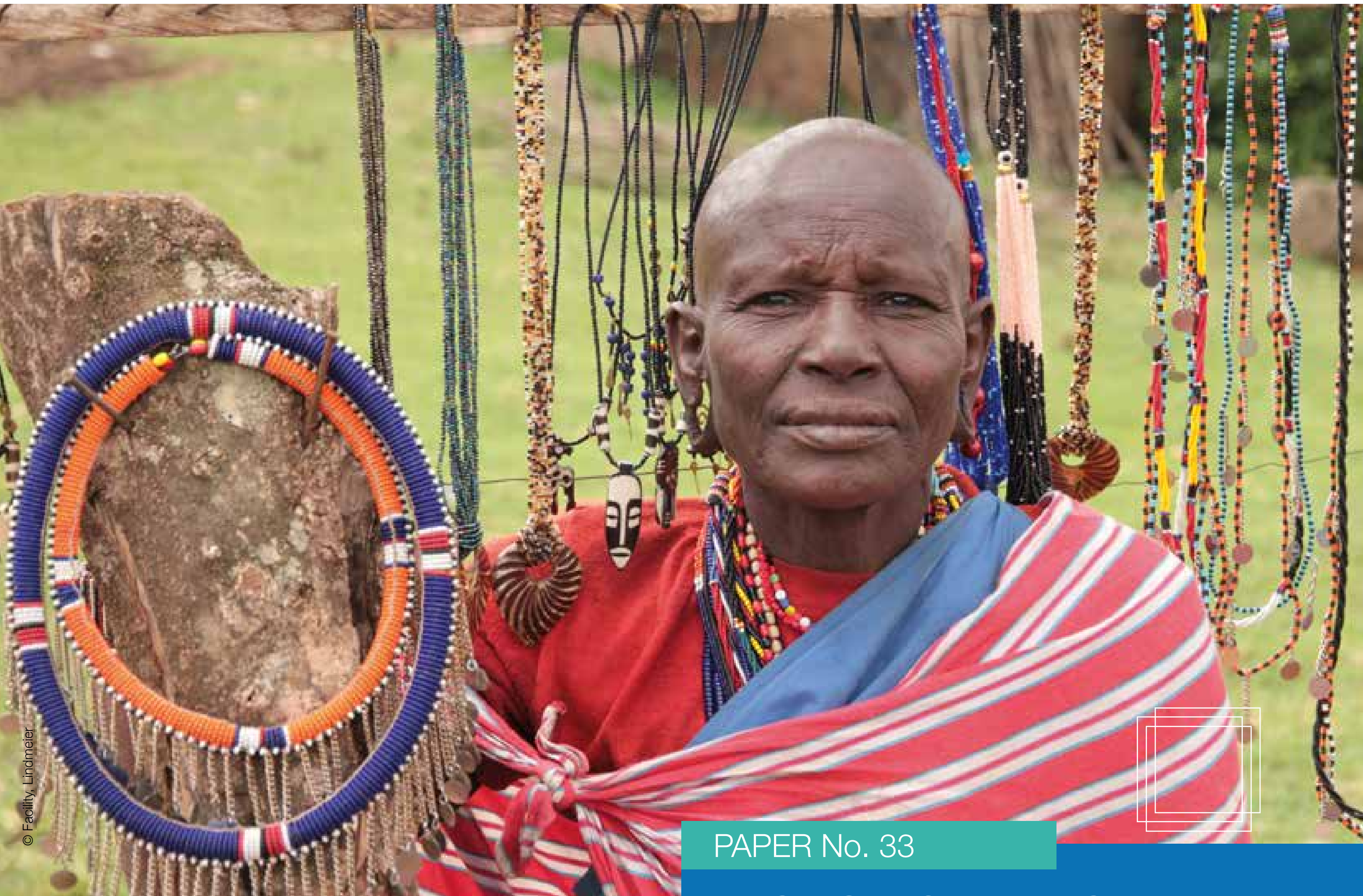
Impact Insurance

International Labour Organization



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PAPER No. 33

MICROINSURANCE DISTRIBUTION CHANNELS

INSIGHTS FOR INSURERS

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EXECUTIVE SUMMARY

Distribution is a particularly important question for those looking to deliver insurance to low-income people. With low margins, insurers need to find low-cost channels that can reach clients in large numbers. The channels also need to be capable of selling to those with no experience of insurance. These constraints have led to impressive innovation. This brief synthesises our experiences with more than 60 partners distributing microinsurance; it outlines key strengths and weaknesses of each channel for insurers. The brief provides tips grouped under three questions, which provide a starting point for insurers to select and approach a distribution channel:

WHAT CAN THE DISTRIBUTION CHANNEL DO FOR ME?

- **Weigh the pros and cons.** Each channel offers different advantages, and understanding these can be a starting point for selecting and working with a channel. See an example of how CIC Insurance Group weighed up distribution possibilities. The following pages outline the pros and cons most often experienced with each channel. See how they compare at a glance:

	Financial institution	Community-based	Retailers	MNOs	Employers	Direct sales
Client understanding – Is the channel able to improve clients' understanding and give advice?	-	☺	☹	☹	☺	☺
Product diversity – Is the channel open to offering a wider range of products?	☺	☺	☹	☹	☺	☺
Scale – Does the channel have access to a large number of potential clients?	☺	-	☺	☺	-	☹
Brand and trust – Does the channel have a popular brand? Is it trusted within a community?	-	☺	☺	☺	☺	-
Priority – Does microinsurance matter to the channel? Is it willing to prioritise it?	☹	☺	☹	-	-	☺
Cost – Dos the channel offer low-cost distribution for the insurer?	-	-	☺	☺	☺	☹
Partnership risk – Does the channel offer a long-term partnership?	☹	-	-	☹	☺	☺

Think beyond enrolment. Distribution channels can do more than just sell products (see the example of Fonkoze). Many are well placed to provide support across the value chain:

	Promotion	Enrolment	Premium collection	Education	Providing value-added services	Claims reporting	Claims assessement	Claims payment
Financial institutions	☺	☺	☺	☺		☺		☺
Cooperatives etc.	☺	☺		☺	☺	☺	☺	
Retailers	☺	☺	☺			☺		☺
MNOs	☺	☺	☺		☺	☺		☺
Employers	☺	☺	☺	☺		☺	☺	☺
Direct sales	☺	☺	☺	☺	☺	☺		☺

Mix and match. Distribution channels can be combined in creative ways to leverage their infrastructurand expertise. Consider how you can combine elements of different channels to take advantage of their benefits and address shortcomings. Financial institutions, for example, offer an existing client base and payment platform, yet their employees often do not prioritise insurance. In some cases insurers have responded by installing their own sales agents in the branches of financial institutions. Increasingly, exciting hybrid models are emerging, like banking correspondents, which merge elements of retail and financial institutions. You can also see how direct sales have been used to leverage other channels.

WHAT CAN I DO FOR THE DISTRIBUTION CHANNEL?

- **Solve the distributor's problems.** Commissions are often not enough. In addition to providing a revenue source, many of the most successful microinsurers are seeing that their product needs to solve an important problem for the distributor so that the distributor has its own incentive to ensure the product's success. Insurance can be a reward to make existing clients more loyal, can help the distributor transfer some risks to the insurer, or make them stand out from their competition. These synergies are a powerful basis for long-term partnerships. See the examples of Hollard, Tigo, and Naya Jeevan.

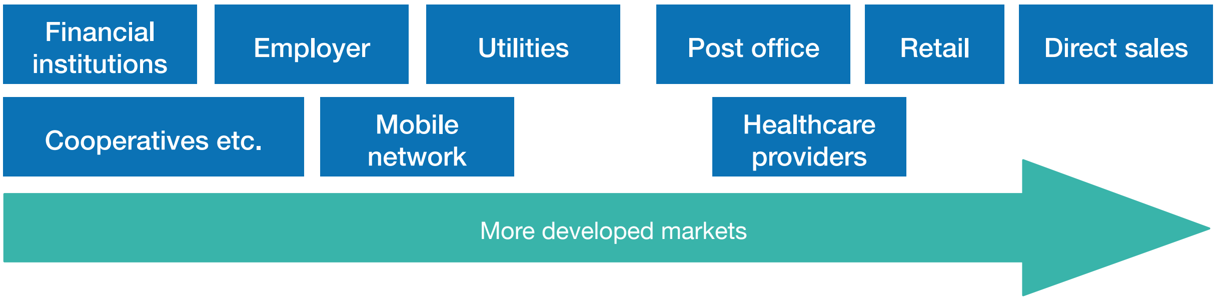
- **Focus on agent productivity.** Distribution through many channels relies on the efforts of sales agents and their productivity is vital to unlock the full potential of a channel. In fact, if agents are not productive quickly, they will not receive value and will lose interest in the scheme. This can lead to the failure of the whole scheme, which will be very costly to revive.

Agent productivity should be considered right from the way that sales agents are recruited. Once the agents are in place, incentive mechanisms, cross-selling opportunities and training contribute to increased agent productivity. Think carefully and creatively about incentive mechanisms – they can reward renewals or overall revenues raised as well as just commissions on individual sales. And above all it is vital that incentives are sufficient at the level of individual agents and not just the distributing organisation. See the experiences of La Positiva

- Deliver client value. Distribution channels are often valued and trusted organisations, and sustaining this reputation is a priority. Unless insurers deliver client value, distributors may consider the distribution of insurance a risk to their reputation. Providing good value to their clients, on the other hand, is a good basis for long-term partnerships. See the examples of IFFCO-Tokio and MAPFRE.

IS THE CHANNEL RIGHT FOR MY TARGET MARKET?

- **Take it step by step.** Successful distribution strategies sequence their products and use of distribution channels according to the maturity of their target market. See the experiences of Protecta and YuMobile. The diagram below illustrates how insurers may sequence mandatory, group and individual products, and which channels may suit these stages.



First phase: In markets where low-income people are not familiar with insurance, mandatory insurance for groups is usually most successful. Insurers look for a distribution channel which already has a large client base and can facilitate mandatory enrolment, such as financial institutions and mobile network operators. In order to understand and make use of the product, clients will often require more interaction.	**Second phase:** As markets progress, insurers can switch to voluntary products but sell them to large groups. The insurance culture is still weak so channels with an active sales approach are more likely to be successful in selling voluntary products.	**Third phase:** When clients are familiar with and value insurance, insurers can move on to the third stage of scale, which is characterised by selling voluntary insurance to individuals. With a stronger insurance culture, more passive sales may be possible, such as selling products "off the shelf" in a shop.

- **Think about a microinsurance intermediary.** A partnership with a distribution channel may well leave some gaps. Intermediaries can offer a way to fill those gaps. They broker between the insurer and distributor and also provide other services, such as market research, sales force training, product development, administrative services, and reinsurance sourcing and provision. They are certainly playing an important role in the growing microinsurance industry - between 2008 and 2012, five microinsurance intermediaries (Aon Bolivia, Aga Khan Agency for Microfinance, MicroEnsure, PlaNet Guarantee and Star Micro) grew rapidly, with a compounded annual revenue growth of 60 per cent (Koven, 2014). See the example of Aon Bolivia S.A.

- **Consider a free product.** Some distribution channels are willing to pay insurance premiums on behalf of their clients and offer insurance free to clients, in order to increase loyalty and gain an advantage over competitors. They may also offer a "freemium" product, which allows clients to purchase additional coverage. Free and freemium products have been particularly popular among MNOs. They allow clients a first experience of insurance and, if this is a positive experience, can be a powerful way to kick start an insurance culture. See the experience of Women's World Banking Ghana.

1 FINANCIAL INSTITUTIONS[1]

Many microfinance institutions (MFIs), credit unions, cooperatives and commercial banks offer financial services to low-income clients. Their level of focus on the low-income market and their sales approach vary greatly.

Most often sell: mandatory products, life products, some health products

WHAT CAN THE DISTRIBUTION CHANNEL DO FOR ME?

Functions it is well suited to perform:

Promotion → Enrolment → Premium collection → Education → Providing value-added services → Claims reporting → Claims assessement → Claims payment

Pros and cons of the channel:

Client understanding	-	Staff members in branches of financial institutions interact with clients and, if they are adequately trained and incentivized, they can increase clients' understanding of insurance. However, financial institutions often only distribute mandatory credit-linked products which are sometimes poorly understood by clients.
Product diversity	☺	Most financial institutions have been slow to move beyond mandatory products, which tend to be linked to loans and consist largely of life insurance. However, some have also started to provide health insurance products.
Scale	☺	Financial institutions tend to have a large client base which they can enrol on a mandatory basis. However, they are usually only able to enrol their existing borrowers, sometimes due to regulatory implications (Chandani and Garand, 2013).
Brand and trust	-	Some financial institutions are well-known in low-income markets. And many, particularly MFIs with a strong social mission, often enjoy the trust of their clients.
Priority	☹	Financial institutions are more familiar with other financial products and may feel that insurance distracts time and effort from their core products. Adequate incentives, relevant training, as well as bundled products, can overcome this.
Cost	-	Financial institutions' existing infrastructure can make them a low-cost channel. However, the need to incentivize staff to focus on insurance can drive up distribution costs.
Partnership risk	☹	Financial institutions are familiar with financial services and often have sufficient capital to run their own insurance business. Once the business case for microinsurance has been proven, they may choose to support an insurance company that is part of the same group or set up their own. To avoid being side-lined in the long term, insurers can promote comprehensive products, such as health and agriculture insurance, which exceed the financial and technical capacity of most financial institutions.

• THINK BEYOND ENROLMENT: FONKOZE

Fonkoze, a Haitian MFI, provided compulsory insurance to protect its clients when a natural disaster destroyed their property, place of business, or business inventory. The MFI's close relationship with clients and existing infrastructure allowed it to take a broad role, including distribution, educating clients and assessing, servicing, and paying claims. For example, chief borrowers (elected by their fellow borrowers in each area) visited clients after disasters to report on the damage they had experienced.

1 Some 52 per cent of MFIs examined by the Microfinance Information eXchange (MIX) market only offer mandatory products, 31 per cent offer a combination of mandatory and voluntary, and 17 per cent offer only voluntary products (Churchill et al., 2012).

WHAT CAN I DO FOR THE DISTRIBUTION CHANNEL?

- Insurance can be a competitive edge for the distributor in the face of increasing competition.
- Insurance transfers the risk that clients will be unable to repay loans due to death or illness.
- Commission on insurance provides additional revenue.

IS THE CHANNEL RIGHT FOR MY TARGET MARKET?

Financial institutions are often one of the first microinsurance distribution channels in a country. They often provide borrowers with mandatory insurance and are able to build financial literacy because they interact personally with clients. This makes them ideally placed to serve nascent markets. After clients have become familiar with insurance, financial institutions can progress to selling voluntary products.

• **TAKE IT STEP BY STEP:** PROTECTA

Protecta was the first Peruvian insurer to provide insurance to the low-income market. In 2007, it launched a partnership with MiBanco, a MFI, to distribute credit-linked life insurance. Although it later worked with other distribution channels, MiBanco has continued to play a central role in achieving scale, with 800,000 of its 1.9 million clients coming from the partnership.

• **THINK ABOUT A MICROINSURANCE INTERMEDIARY:** AON BOLIVIA S.A.

Aon started working as a microinsurance intermediary in Bolivia in 2008 and built a profitable book of over US$ 500,000 in commissions, largely working with banks and MFIs to distribute insurance. It has the market clout to negotiate deals with insurers, and is able to create profitable arrangements for both distributors and insurers. It has also expanded the product range offered by its partners to include new simple life and retirement policies.

• **CONSIDER A FREE PRODUCT:** WOMEN'S WORLD BANKING GHANA

Women's World Banking linked free life insurance to savings accounts in Ghana, with savers receiving greater insurance benefits the more they save. In the first 5 months after it was introduced, the bank's deposits increased by 19 per cent and deposits from clients with balances below US$ 60 increased by 207 per cent, making it well worthwhile for Women's World Banking to cover the cost of the insurance.

Find out more

- Pathways towards greater impact: Better microinsurance models, products & processes for MFIs
- Case Brief: Fonkoze (Impact Insurance Facility)
- CEO Interview: Jose Luis Contreras, Aon Bolivia S.A. (MILK)
- Chapter 23 on Microinsurance intermediaries in Protecting the poor: A microinsurance compendium. Vol. II

2 COMMUNITY-BASED ORGANISATIONS

Community-based organisations include cooperatives, trade unions and faith-based organisations. These organisations have a tradition of providing insurance to their members. They vary greatly, both in size and in their level of formality, but their ability to group large numbers of people, sometimes with similar characteristics or needs, can make them all attractive distribution channels.

Most often sell: voluntary or mandatory products, wide range of product lines

WHAT CAN THE DISTRIBUTION CHANNEL DO FOR ME?

Functions it is well suited to perform:

Promotion → Enrolment → Premium collection → Education → Providing value-added services → Claims reporting → Claims assessement → Claims payment

Pros and cons of the channel:

Client understanding	☺	Community-based organisations are usually familiar with the needs of their members, have frequent contact with them, and can provide them with advice provided their sales agents are adequately trained.
Product diversity	☺	Client needs vary among communities. These organisations tend to understand these needs and can be a driving force to help insurers understand them and develop relevant and diverse products.
Scale	-	Community-based organisations often have a vast membership. In some cases members make a collective decision to take up the product, making the product mandatory, and helping the scheme reach scale.
Brand and trust	☺	Community-based organisations play a central role in the social or professional life of their members. This provides them with a high visibility. They are also often perceived as trustworthy, although this trust may not necessarily extend to financial services.
Priority	☺	Community-based organisations have often seen insurance as a high priority as they have a tradition of addressing the risks faced by their members. Many have actively approached insurers.
Cost	-	Community-based organisations can cost-efficiently sign up groups, but can be a more expensive channel for individual sales.
Partnership risk	-	In general, there are no significant partnership risks. However, large community-based may decide to shift to a mutual model, which can reduce the need for an insurer.

• WEIGH THE PROS AND CONS: PIONEER LIFE

In the Philippines, the insurer Pioneer Life distributed a product that bundles savings with life and accident microinsurance through the Catholic Church. The scheme targets families of migrant workers and their dependents who are part of a migrants' association at churches and schools in selected provinces. Given the church's presence in almost every community and the largely Catholic population, the church has been a promising distribution partner. Yet, the scheme has not achieved scale. This may be partly because churches are not as trusted on financial issues as they are on other issues, or because they are not experienced with financial products and transactions. Although the scheme targeted 250,000 migrant families, less than 5,000 policies were in force in 2011.

WHAT CAN I DO FOR THE DISTRIBUTION CHANNEL?

- Community-based organisations are often characterised by a strong sense of solidarity and value insurance as a means of contributing to the welfare of their members.

- Community-based organisations have a tradition of supporting members in times of crisis. Insurance allows them to manage these risks more effectively.

• **DELIVER CLIENT VALUE:** IFFCO-TOKIO

IFFCO-Tokio General Insurance Co Ltd. (ITGI) sells insurance through farmers' cooperatives, banks and credit societies in India. It has been able to build strong partnerships and grow significantly by delivering value to farmers. In particular, it has improved its claims process allowing it to process most claims within 15-20 days. As a result, the product offers considerably improved client value compared to other livestock insurance products, which have claims turnaround times of up to six months. Client satisfaction has been demonstrated by healthy renewal levels. Interestingly, around 30 per cent of clients no longer have a loan with the cooperative, but want to continue protecting their cattle through the cooperative. By March 2013, the product covered around 50,000 animals.

IS THE CHANNEL RIGHT FOR MY TARGET MARKET?

Community-based organisations can often operate in environments with little insurance culture, as members are often used to looking to them for support during shocks. They usually also have direct contact with clients which allows them to understand the needs of their clients and to educate them about insurance.

In many countries, networks of community health workers exist and regularly visit remote communities. They can deliver and service health insurance within communities that are otherwise difficult to access.

Democratic dynamics in community-based organisations can also drive the emergence of an insurance culture. For example, communities can often be involved in the product design process, even voting on final product design. This helps insurers tailor products, while also promoting better understanding of the product.

IS THE CHANNEL RIGHT FOR MY TARGET MARKET?

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Find out more

- Case Brief: IFFCO-Tokio General Insurance Co. (Impact Insurance Facility)
- Community-based microinsurance: localised and responsive (Rural 21)

3 RETAIL CHAINS

Extensive retail chains exist in many emerging markets, including supermarkets, appliances stores, clothing retailers, agricultural input retailers and credit retail chains. They often offer products for sale “off the shelf” without providing advice, partly to avoid meeting the regulatory training requirements for insurance sales in many countries.

Most often sell: voluntary products, life, disability and agriculture products

WHAT CAN THE DISTRIBUTION CHANNEL DO FOR ME?

Functions it is well suited to perform:

Promotion → Enrolment → Premium collection → Education → Providing value-added services → Claims reporting → Claims assessement → Claims payment

Pros and cons of the channel:

Client understanding	☹	Employees tend to have little understanding of insurance and many are not allowed to offer advice due to regulatory requirements.
Product diversity	☹	Retailers tend to offer simple products as their passive sales approach and unfamiliarity with insurance makes it difficult for them to sell more complex products.
Scale	☺	Retailers generally offer voluntary products, but are often able sell to a large client base. They sometimes also have databases which capture information about a large number of clients, which can be used to support product design and marketing.[2]
Brand and trust	☺	Retailers often enjoy a high degree of popularity and benefit from trusted brand names. Insurers can capitalise on this brand to sell their products, however in doing so they may struggle to raise awareness of their own brand.
Priority	☹	Insurance products have to compete with a retailer’s wide range of products, and often struggle for visibility and promotion among them.
Cost	☺	Retailers have proven to be a cost-effective distribution channel. This is partly because their existing infrastructure means that selling insurance adds little additional costs to their business operations, and partly because of their passive sales approach which does not increase staff costs (although sales are often supported by call centres which can be more costly). Smith et al. (2010) examined several aggregator distribution channels; and they found that retailers are the least expensive one.
Partnership risk	-	Retailers often sell products from more than one insurer and may even set up their own brokerage selling products from a range of insurers. In this case it becomes increasingly difficult to compete for attention with other kinds of products as well as insurance products from other insurers.

2 Edcon, for example, took advantage of existing client data from its credit sales to design insurance products. It had 5.6 million active policies in 2012 (Smit, 2013).

WHAT CAN I DO FOR THE DISTRIBUTION CHANNEL?

- The profitability of retailers is closely related to their footfall. If retailers sell insurance and collect premiums, clients may visit more frequently to make premium payments (Smit, 2013).
- Some retailers offer financing agreements to clients for the purchase of goods. This exposes them to the risk of non-repayment. Insurance transfers this risk to the insurer.
- Retailers can offer insurance as part of loyalty schemes.
- Commission from insurers provides additional income.

• **DELIVER CLIENT VALUE:** MAPFRE

Casas Bahia is a Brazilian furniture and home appliances retailer for the low-income market with a large client base. In 2004, MAPFRE Insurance Brazil partnered with Casas Bahia to sell life, unemployment and personal accident insurance in-store. The partnership between the retailer and insurer was structured so that Casas Bahia was involved from the start in the design of products. This arrangement allows Casas Bahia to ensure that the product serves their clients well, minimizes the reputational risk for the retailer. The product is designed to be simple and convenient, and value-added services (such as a pharmaceutical discount card offered with the life insurance product) enhance the tangibility of the product and drive take-up. By 2013, the partnership resulted in approximately 6 million policies in force.

• **SOLVE THE DISTRIBUTORS' PROBLEMS:** HOLLARD

The insurer Hollard launched a partnership with Edcon in South Africa in 2000. Edcon is a clothing, footwear and textile retailer, which was interested in distributing credit life insurance to reduce its debt losses. Initially, Edcon only distributed credit life insurance but later started offering simple life and funeral insurance and insurance for mobile phones. The partnership was able to sell 5.6 million policies.

IS THE CHANNEL RIGHT FOR MY TARGET MARKET?

Retail chains are usually a pull channel, expecting clients to pick a product off the shelf, rather than actively selling it. This sales approach limits their effectiveness, and increases the risk of mis-selling, in environments where understanding of insurance is low. Moreover, where retailers bundle insurance with lottery prizes, clients are often more interested in this element and may not understand the insurance product (Berende, 2013).

Find out more

- Reaching the client: Update on microinsurance innovation in South Africa (Cenfri)
- What Motivates Retailers to offer Financial Services? South Africa case study (Cenfri)
- Scale: Thinking big (Impact Insurance Facility)

• **MIX AND MATCH:** BANKING CORRESPONDENTS – FINANCIAL INSTITUTIONS PLUS RETAIL

It is very expensive for banks to open and operate branches in poor, rural areas. Therefore, with the right regulatory and economic incentives, some banks have started to develop partnerships with commercial outlets, such as shops or pharmacies already serving these communities. These act as "banking correspondents", providing banking services on behalf of the bank. They are equipped with point-of-sale devices which allow them to carry out real-time transactions. This model is therefore a hybrid between retail and financial institutions.

It is important to note that it would be very difficult and expensive to establish such a network just to sell insurance, therefore this distribution channel is most likely to be successful in markets were banking correspondent networks are already established to sell other financial products.

FINO

The Financial Inclusion Network Operations Ltd (FINO) in India established a network of banking correspondents equipped with handheld devices connected to their central server. They started out by offering services including opening bank accounts and distributing government disbursements, and later added a personal accident insurance product. It was able to sell in impressive numbers: in the financial year of 2011-2012, it sold over 200,000 policies nationwide, and around 110,000 were sold in 2012-2013. However, FINO has found it more difficult to distribute a more complex product through this channel: in 2012-2013, FINO's banking correspondents only distributed 575 bundled personal accident and hospital cash products; and in 2013-2014 this figure had only increased to 755 policies.

BRADESCO

The banking correspondents model has been particularly successful in Brazil, where the number of bank branches remained stable from 2002 to 2011, but the number of banking correspondents experienced a 19 per cent annual growth rate.

Bradesco is a bank in Brazil with an extensive and successful network of over 46,000 banking correspondents known as Bradesco Expresso. Bradesco's insurance arm, Bradesco Seguros, has been working with a subset of these correspondents to offer insurance.

To support the network's insurance sales and conform to regulatory requirements, Bradesco also uses specially-trained microinsurance brokers. The combination of face-to-face interaction from these brokers and the technology-enabled banking correspondent model is proving a creative and effective way to combine old and new sales techniques as well as different distribution options. By March 2014, Bradesco Seguros had sold 46,000 policies through this network.

4 MOBILE NETWORK OPERATORS

Mobile network operators (MNOs) offer telecommunication services to vast numbers of low-income clients. They can function as distribution channels for microinsurance in two ways: as a passive distribution channel, which allows clients to register for insurance by using their mobile phones; or by actively providing clients with insurance coverage, for example as part of a loyalty scheme. Most mobile network operators in fact function as hybrid distribution channels, also deploying sales agents to assist clients.

Most often sell: voluntary and mandatory products, life and hospital cash products

WHAT CAN THE DISTRIBUTION CHANNEL DO FOR ME?

Functions it is well suited to perform:

Promotion | Enrolment | Premium collection | Education | Providing value-added services | Claims reporting | Claims assessement | Claims payment

Pros and cons of the channel:

Client understanding	☹	The downside of using mobile technology to facilitate enrolment and other processes is that there is low personal interaction about insurance between the distributor and clients. However, the addition of agents, SMS-messaging and call centres can compensate for this.
Product diversity	-	Most MNOs have concentrated primarily on life insurance and found it difficult to sell more complex products. However, several are offering hospital cash products and, with the support of sales agents, have the potential to sell a wide range of more comprehensive products.
Scale	☺	MNOs have access to a vast pool of mobile phone subscribers, which can be automatically or voluntarily enrolled. Mobile technology also allows MNOs to enrol and collect premiums from clients in remote areas, who may be inaccessible to other distribution channels.
Brand and trust	☺	MNOs are often highly visible and trusted brands in low-income markets.
Priority	-	Where insurance is not offered as a loyalty benefit, it has to compete with other paid mobile-based applications and products supported by the MNO.
Cost	☺	Using mobile technology can facilitate agent-less processes, which can significantly reduce costs.
Partnership risk	☹	In the short-term, insurance offers an attractive way for MNOs to attract and retain clients. This put pressure on insurers to come up with new offers so that clients of MNOs remain excited about the loyalty scheme. If they are not able to do so, MNOs may look for alternative solutions to improve client loyalty. Furthermore, in a typical MNO-insurer partnership, it is the MNO who controls the product and has the relationship with clients, meaning that the insurer struggles to expand its offering without the support of the MNO. Furthermore, MNOs are able to apply for an insurance licence in many countries, and may start to offer insurance without the involvement of an external insurance company.

WHAT CAN I DO FOR THE DISTRIBUTION CHANNEL?

- Many MNOs suffer from churn – when clients have several mobile numbers and constantly switch between several providers. Insurance can be offered as part of a loyalty scheme, helping MNOs attract and retain clients and encourage them to be more loyal. However, MNOs often switch the loyalty benefits they offer, and may only use insurance in this way for a limited time.
- Insurance can increase the use of their mobile money accounts if it is used to pay premiums, which in turn increases revenues for the MNO
- Commissions can represent additional revenue for MNOs.

• SOLVE THE DISTRIBUTORS' PROBLEMS: TIGO

In Ghana the MNO Tigo offers its customers a life insurance product free of charge when they spend at least US$ 2.60 a month on airtime. Tigo is willing to pay the cost of the premium, because it believes that the free product will increase its clients' loyalty. The sum assured ranges from US$ 104 to US$ 520 depending on how much the customer spends on airtime. The partnership has resulted in 550,000 policies in force covering over 1 million lives of whom an estimated 93 per cent have no other insurance cover (Zetterli, 2013).

IS THE CHANNEL RIGHT FOR MY TARGET MARKET?

Free products offered through MNOs can provide clients with a first experience of insurance and a starting point for understanding and using it. However, since MNOs have little direct contact with clients, it is challenging for insurers to make sure that clients understand the product. Sales agents offer one way to achieve this. As clients become more familiar with insurance, MNOs can be used to sell more comprehensive products, and can function more easily without the support of agents.[3]

• TAKE IT STEP BY STEP: YUMOBILE

The MNO YuMobile partnered with the insurer Jubilee Life to offer a life and accident product in Kenya (Prashad et al., 2013). The scheme allows clients to register through a USSD-enabled menu[3] without the help of a sales agent. As a result, enrolment costs were reduced by 66 per cent. However, this resulted in higher costs in other areas, for example call centres to follow up with clients if their registration was not completed. Although the USSD-enabled menu provided clients with information about insurance, almost 87 per cent of clients did not fully understand the product. Since the disability cover caused the most confusion, YuMobile has considered excluding this cover.

Find out more

- Mobile phones and microinsurance (Impact Insurance Facility)
- Distribution and technology in microinsurance: Experiences and lessons learnt from microinsurance providers in India and Brazil (GIZ)

3 USSD stands for unstructured supplementary service data and is a protocol which facilitates the communication between mobile phones and the MNO's computers.

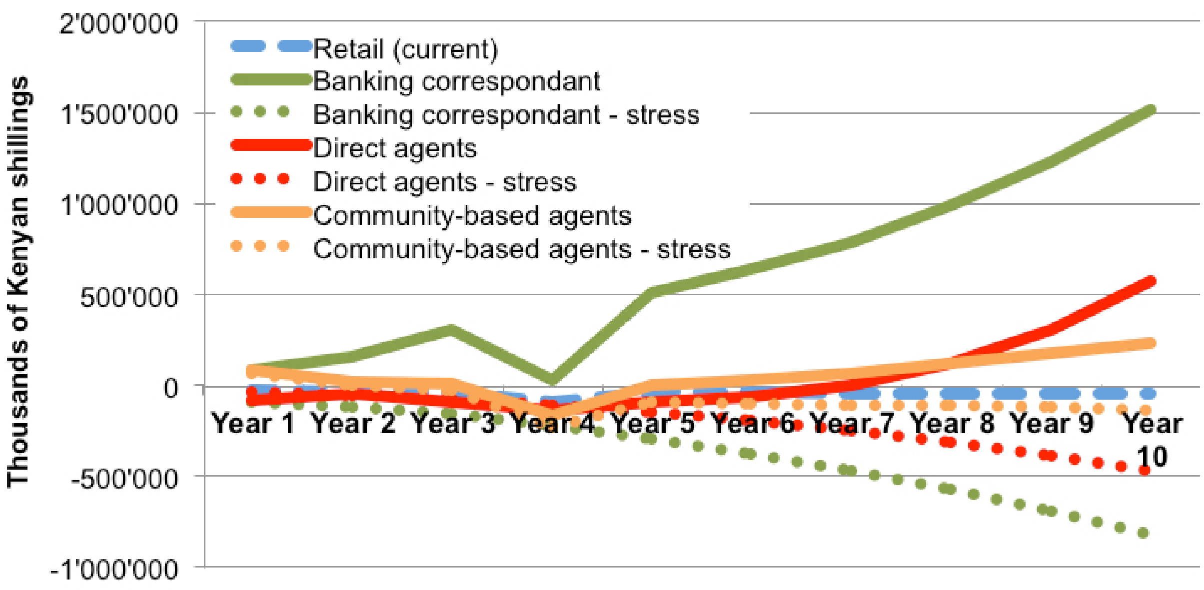
• **WEIGH THE PROS AND CONS:** CIC INSURANCE GROUP

CIC Insurance Group hoped to capitalise on the success of the money transfer service M-PESA in Kenya, used by more than 15 million people. It built a new technology platform using M-PESA, called M-Bima, and launched a combined life insurance and savings product on the platform in 2011.

It began marketing and distributing the product largely through retail and mobile money outlets. However, when sales did not meet expectations, it went back to evaluate potential distribution options, comparing its existing model to banking correspondents, direct agents and community-based agents. The banking correspondent model appeared the most scalable, especially for simpler products. However, it also posed an important partnership risk, especially for savings-linked products, as the bank which owned the network might introduce its own insurance products. Both the existing model and community-based models had limitations in terms of scale and were therefore too expensive. The community-based model had a lower cost structure and might work if there were the possibility to sell other insurance products or if successful community agents could be transformed into direct agents who could sell more extensively outside of their community circles. The direct agents model would require more investment upfront, has the potential to reach substantial scale, but cross-selling would need to be activated quickly to generate more revenue.

When CIC modelled the profitability of the different models, it estimated that only the banking correspondent model was profitable from the start, the current retail model was not profitable, and the other two options would break even after some years. However, all these projections are very sensitive to scale and long-term financial assumptions. The below chart also shows a "stress" situation, under which the long-term interest rate is reduced by 4 percentage points and the short-term interest rate by 2 percentage points (along with a slight increase in mortality and slightly lower persistency), and under these circumstances none of the models are profitable. Given these low-margins, the higher the scale, the higher the profits or losses, making the business correspondent model particularly attractive but risky.

Estimated profits before tax



5 EMPLOYERS

Employers have an interest in the well-being of their employees. They benefit, for example, if employees recover quickly after falling ill. This makes employers a potential distribution channel, as well as a source of subsidies, for insurance.

Most often sell: voluntary and mandatory products, life and health products

WHAT CAN THE DISTRIBUTION CHANNEL DO FOR ME?

Functions it is well suited to perform:

Promotion → Enrolment → Premium collection → Education → Providing value-added services → Claims reporting → Claims assessement → Claims payment

Pros and cons of the channel:

Client understanding	☺	Employers' frequent contact with employees can allow them to build awareness and understanding. They can also explain the cover and claims process to a client when a claim needs to be made.
Product diversity	☺	Employers have an incentive to offer a range of products, and are particularly likely to be interested in health cover, which is a product many channels struggle to offer.
Scale	-	Large employers can help schemes reach impressive scale. However, with many employees in developing countries employed by small businesses, insurers may need to develop relationships with many separate small businesses. This can more easily be achieved if governments make insurance mandatory.
Brand and trust	☺	Employers may have a close relationship with employees and be a trusted source of information.
Priority	-	Employers need to be willing to allow employees time away from work to register for insurance and access value-added services (such as workshops or health check-ups). It can be difficult to ensure that they prioritise these activities.
Cost	☺	Employers can have an interest in subsidising premiums, allowing insurers to offer more comprehensive benefits at a lower cost to clients.
Partnership risk	☺	There is no significant partnership risk with employers, but the insurer needs to create processes that work for both the employer and the employees if they are to build lasting partnerships.

WHAT CAN I DO FOR THE DISTRIBUTION CHANNEL?

- Better health and welfare of employees should make them more productive.
- Insurance benefits may help employers to attract and retain employees.
- Employers are often asked to pay or loan employees money for emergency expenses, and therefore may act as informal insurers themselves. Formal insurance helps them better budget such expenses and removes the difficulty of dealing with such requests.
- Insurance may form a part of corporate social responsibility initiatives and help protect the reputation of the company.

• SOLVE THE DISTRIBUTOR'S PROBLEMS: NAYA JEEVAN

In order to make quality health services affordable to low-income workers in Pakistan, Naya Jeevan seeks sponsors to pay the majority of the insurance premium on behalf of their employees, workers in their supply chains, or domestic workers in the homes of executive employees.

For example, Naya Jeevan's first partnership with a major multinational company was with Unilever. As of a result of this collaboration, Unilever required all of its 100 plus distributors (ranging from small- to medium-sized businesses) to provide health insurance to their informal and formal employees as a precondition for doing business with Unilever. As a result of this arrangement alone, more than 1,400 beneficiaries are now covered through Naya Jeevan. Unilever is planning to expand this collaboration to also cover mobile ice-cream sales agents who sell Unilever ice-cream products on bicycles or tricycles.

Unilever's motivation is not purely philanthropic – one of its distributor's informal employees suffered a life-threatening accident while at work and died because he could not afford the associated medical expenses. Media spotlight on this issue had the potential to harm Unilever's image.

IS THE CHANNEL RIGHT FOR MY TARGET MARKET?

Employers offer an attractive opportunity to reach workers in both undeveloped and more advanced microinsurance markets. They can also play an important role in the process of developing a market. For example, employees' experiences offering insurance may inform and encourage government efforts to introduce compulsory schemes for workers. [4] Employers most often provide access to formal workers, yet Naya Jeevan has shown how they can also provide a means to cover informal workers.

Find out more

- Case Brief: Naya Jeevan

4 For example, GRET piloted a health insurance scheme in Cambodia with a union of employers in garment manufacturing. GRET worked with the Cambodian National Social Security Fund so that the scheme could eventually be transferred to it. See more in the project's Learning Journey.

6 DIRECT SALES

An insurer can use its own or outsourced sales staff to engage in door-to-door sales and try to persuade potential clients to buy insurance one-on-one. They can also assist clients throughout the life of the policy.

Most often sell: voluntary products, very wide range of product lines

WHAT CAN THE DISTRIBUTION CHANNEL DO FOR ME?

Functions it is well suited to perform:

Promotion → Enrolment → Premium collection → Education → Providing value-added services → Claims reporting → Claims assessement → Claims payment

Pros and cons of the channel:

Client understanding	☺	Direct sales agents engage in personal interactions with clients and are often specialised in insurance sales, so they are in a privileged position to improve the client's understanding and provide advice.
Product diversity	☺	Direct sales agents are able to offer the widest range of products. Their training and specialization in insurance makes it easier for them to sell more comprehensive products.
Scale	☹	Direct sales agents largely make individual sales, and can only reach a larger client base through the addition of further agents to the network. However, some sell to groups and may be able to scale more quickly.
Brand and trust	-	Direct sales agents are highly visible within their circle of friends and acquaintances, but often struggle to sell beyond these circles (Roth and Athreye, 2005).
Priority	☺	Direct sales agents will usually prioritise insurance sales since this provides their main source of income.
Cost	☹	Substantial investment is required to establish the channel and it also faces high maintenance costs. Break-even is often not achieved for 6-10 years. Enabling cross-selling generates greater revenues for agents, allowing the channel to break even more quickly.
Partnership risk	☺	Insurers have full control over direct sales agents and do not face significant partnership risks with them. Nonetheless, they need to establish adequate incentive mechanisms to retain agents. Otherwise, agents might take their clients to competitors.

- **MIX AND MATCH:** USING DIRECT SALES AGENTS TO LEVERAGE OTHER CHANNELS

AIC: FINANCIAL INSTITUTIONS AND DIRECT SALES

In Haiti, the Alternative Insurance Company (AIC) offers life insurance products through financial institutions. In light of disappointing sales performance at the MFI Sogesol, AIC placed its own agents at the MFI's branches. As a result, Sogesol sold in one quarter 40 per cent of what it sold in the entire previous year.

HOLLARD: RETAIL CHAINS AND DIRECT SALES

The insurance company Hollard partnered with Pep, a low-income clothing and small appliances retailer in South Africa, to sell a funeral insurance product off-the-shelf without active sales by Pep staff. Although the product experienced significant take-up, Hollard ran a pilot project placing agents at certain Pep stores, which helped increase sales by over 300 per cent in these stores.

WHAT CAN I DO FOR THE DISTRIBUTION CHANNEL?

- Jobs as direct sales agents may represent valuable employment opportunities and sources of income for direct agents. [5]
- Incentives are not always financial. The Alternative Insurance Company (AIC) in Haiti, for example, developed a partnership with a university to provide its agents with access to higher education. This provides the insurer with better qualified sales agents and also provides additional incentives for sales agents.

IS THE CHANNEL RIGHT FOR MY TARGET MARKET?

Establishing a direct sales distribution network in can be difficult and expensive. Unlike financial institutions, retail chains and MNOs, which already have an established brand and an existing client base, insurers often have to build networks of agents, a client base and, importantly, brand recognition from scratch. Direct sales networks are therefore more often developed at a later stage in low income markets, after an insurer has built a brand through partnerships with other channels. Insurers may also chose to combine a direct sales approach and a partnership with an organisation with an existing brand and client case.

Find out more

- Distributing life and funeral microinsurance using in-house sales force (SINAF Seguros)
- Selling more, selling better: A microinsurance sales force development study (Impact Insurance Facility)

5 The experience of Tata-AIG in India suggests that these new opportunities can particularly empower women (Roth and Athreye, 2005).

7 OTHER DISTRIBUTION CHANNELS

Healthcare providers

Various studies demonstrate that insurance encourages clients to seek healthcare treatment earlier and more frequently (Dalal et al., 2014; Zimmerman, et al., 2013). This provides a motive for healthcare providers to distribute insurance. In Peru, for example, the insurer Protecta has distributed insurance through a pharmacy franchise and provided value-added services in the form of a benefit card which gives clients discounts on healthcare services and medication. Insurance can also reduce uncollectible bills if healthcare providers are directly reimbursed by the insurer. Distributing health insurance through healthcare providers arguably entails a greater risk of adverse selection. Waiting periods and the enrolment of entire households can help to combat this but further research on the extent of adverse selection and the effectiveness of these solutions is needed.

Post office

Many post offices have a long tradition of providing financial services, although they have faced increased competition in recent years, and they often have very large client bases. In India, for example, the post sold nearly 5 million insurance policies in 2003, increasing to nearly 29 million in 2013 with the help of 170,888 registered agents (Gopinath, 2013). Insurance can provide post offices with additional revenue as well as a competitive advantage. For example, distributing insurance has helped the post office in Morocco retain clients and increase profits (El-Moussaoui, 2013).

Utility companies

Utility companies specialise in supplying electricity, gas and water, but can also become distributors of financial services, including insurance. They usually sell insurance by sending out information to their clients by post along with the bill, and encouraging them to buy a policy. Utilities have a large existing client base and their low-touch sales approach makes them a cost-effective distribution channel. Yet this approach generally limits them to simple products and makes it difficult to sell to clients with little understanding of insurance.

• FOCUS ON AGENT PRODUCTIVITY: LA POSITIVA

The Peruvian insurer La Positiva partnered with the National Board of Users of Irrigation Districts of Peru (JNUDRP), which represents regional water boards throughout the country, to offer insurance to its clients. However, sales were initially low, partly due to an inadequate incentive mechanism.

Those who collect the irrigation water tariff are usually designated as the sales agents. But initially the only commission payments went to the boards, which did little to promote sales. La Positiva therefore came to an agreement with the directors of the water board directors so that sales agents receive a commission of between 2 per cent and 6 per cent. La Positiva still thinks that this commission is too low, and hopes to persuade the water board to give up its commission and instead increase the agents' commission by an additional 5 per cent.

Find out more about agent productivity in Selling more, selling better: A microinsurance sales force development study

8 CONCLUSION

Microinsurance distribution is often the most important link in the chain, and the hardest to get right. The challenge of getting insurance in the hands of low-income clients has led to a range of impressive and sometimes surprising innovations.

Insurers are working with an ever broader range of organisations which are in contact with low-income people, and they are finding new ways to work with those organisations across the entire life of an insurance product, from design to paying claims. Furthermore, they are learning how to deliver value to those organisations and embed themselves in their core business.

But the basic principle driving these innovations remains the same – a distribution partnership has to deliver value to the insurer, to the distribution channel, and to its clients. The most innovative and successful distribution strategies come from understanding, creatively responding to, and balancing the needs of each.

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IMPACT INSURANCE FACILITY

Housed at the International Labour Organization, the Impact Insurance Facility enables the insurance industry, governments, and their partners to realise the potential of insurance for social and economic development. The Facility was launched in 2008 with generous support from the Bill & Melinda Gates Foundation, and has received subsequent funding from several donors, including the Z Zurich Foundation, Munich Re Foundation, the IFC, USAID and AusAID.

International Labour Organization

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