

Achieving scale and efficiency in microinsurance through retail and banking correspondents

Briefing Note

Insurers have shifted away from traditional agents and brokers to partner with various alternative distribution channels in order to reach scale at low cost. Can these models be profitable and offer value to clients? This note provides a briefing on a study that looked into this question for two channels – banking and retail correspondents.

The study examined four case studies in four countries. Analysis was carried out using a financial analysis tool (adapted from the Bill and Melinda Gates Foundation's ACTA framework) and the ILO's PACE assessment tool. The main findings are summarised below.

THERE IS A CLEAR RELATIONSHIP BETWEEN MATURITY, VIABILITY AND CLIENT VALUE.

Only the mature models in the study have achieved scale and viability. Achieving viability requires time and close oversight and management of costs – particularly for alternative distribution business models, where there are multiple stakeholders and processes. The early-stage pilots in this study have achieved limited scale (HDFC-FINO with approximately 850 clients and Bradesco with approximately 30,000) in comparison with the mature models (Malayan-CLIS with 4 million clients and Hollard-Edcon with 250,000).

Model	Partnership
Banking correspondents	Bradesco, Brazil
	HDFC-FINO, India
Retail correspondents	Malayan-CLIS, Philippines
	Hollard-Edcon, South Africa

The products with the highest average PACE (client value assessment) scores were mature, viable models. Partners must be willing to allow the model to evolve and be prepared to invest in changes to improve the client value proposition and viability of the model, including adapting product features and training agents.

ADJACENCIES CAN ALIGN INCENTIVES BETWEEN THE PARTNERS.

Adjacencies are ways in which partners' activities are indirectly affected by the insurance product, for example increased footfall within retail stores as clients visit to pay premiums. Insurers are more likely to have strong partnerships with distribution channels if products create positive adjacencies for the distributor's core business.

COST SHARING CAN OVERCOME VIABILITY CHALLENGES.

In cases where there is a limited business case for one partner and where there are viability challenges, partners may need to consider finding ways to share various costs, including promotion and training costs.

SIMPLE PRODUCTS WORK AS MARKET-MAKERS.

Complex products are difficult to distribute through alternative distribution partnerships, owing to the additional effort and investment required. On the other hand, a simple product is easier to sell, offers easier opportunities for adjacencies, and costs less to distribute. Partnerships may begin by distributing simpler products and increase the complexity over time, as the market becomes familiar with insurance.

CLIENT VALUE IS A PREREQUISITE FOR SCALE (AND VIABILITY).

It is difficult to attain scale without a strong client value proposition. Poor quality products undermine the effects of word of mouth, which can be a major driver of take-up. Whilst a number of models have reached scale through compulsory sales, such as credit life insurance linked to a loan, this becomes harder for voluntary products. Scale is more likely to be achieved when there is a solid client value proposition and a positive experience for clients, as demonstrated in the case of Hollard-Edcon and Malayan-CLIS, which scored high in the client value PACE assessment, as well as achieving scale and profitability.



KEY SUCCESS FACTORS

Several success factors were identified in the four cases:

- Agent networks play a key role in extending the reach of insurance. They also improve the client value proposition by serving as a tangible access point for clients.
- Providing adequate incentives to all parts of the value chain is vital for a harmonious and sustainable partnership.
- Leveraging the distribution channel's brand overcomes distrust of insurers and can drive cost-efficiencies.
- Retail and banking correspondents provide premium payment mechanisms that are efficient for providers and convenient for clients.
- Efficient and convenient client servicing can also be promoted by delegating responsibilities to correspondents.
- Partner resources can be combined in creative ways to take advantage of their infrastructure and expertise.
- Investing in systems can drive efficiencies in the long run and at scale (but will entail short-term costs).
- Training and incentivizing agents correctly is critical to unlock scale.

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. See more at: <http://ilo.org/impactinsurance>