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MANAGING MICROINSURANCE PARTNERSHIPS

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"Good" partnerships have been identified as one of the key factors in the success of a microinsurance programme. Insurers, reluctant to employ the direct sales model in a microinsurance context, need to form partnerships with organizations that can serve as distribution channels. Given cost pressures and the need to reach scale in microinsurance, these partnerships are crucial to the success of the programme. The number of multi-stakeholder partnerships in microinsurance is also growing, as governments and donors become active players. These partnerships are particularly difficult to manage as partners have distinct (sometimes conflicting) priorities and very different organizational cultures.

This note aims to analyse microinsurance partnerships and identify key themes based on the experiences of various organizations. It provides a framework with which to analyse both new and existing partnerships, and provides recommendations and strategies to monitor and improve them.[1]

Partnership, as defined in this note, includes any structured long-term collaboration between organizations to implement a microinsurance programme, as well as formal legal partnership arrangements. The research was primarily focused on partnerships between insurers and distribution channels, although other roles are represented. In particular, a number of lessons emerged with multi-stakeholder partnerships that involved entities other than the distribution partner.

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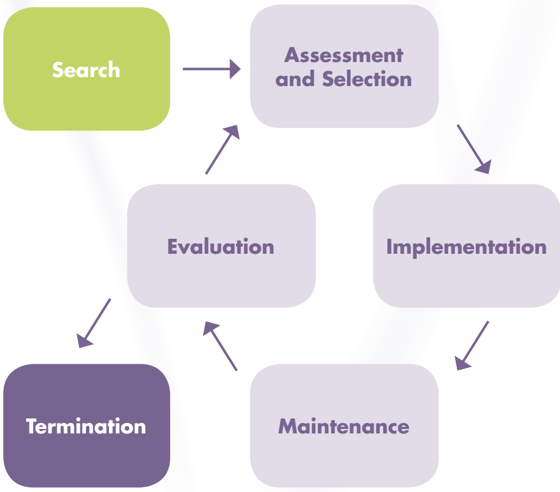
THE PARTNERSHIP LIFE CYCLE

The concept of a Partnership Life Cycle, as illustrated in Figure 1, provides a framework to guide microinsurance practitioners in partnership management. Existing partnerships may be at different points in the cycle, but gaining an understanding of the cycle can assist in managing and evaluating partnerships more effectively and forming new partnerships in the future.

Figure 1 Partnership Life Cycle



1- Search

The cycle begins with the search for a suitable partner to fill a defined need or capacity gap within the microinsurance programme. Initial analysis should identify whether there is a need for a partner organization, and, if so, the rationale for seeking a partnership arrangement. The purpose of the partnership, the requirements for a suitable partner and the objectives expected from the partnership should be clearly laid out. This analysis forms the groundwork for identifying and assessing potential partners.

[1] This brief is excerpted from the Microinsurance Paper no. 15, which includes the relevant citations and details on methodology and the cases reviewed. The paper is available at www.ilo.org/microinsurance. Kelly Rendek is an independent consultant.

The intended partnership should support the strategic objectives of the partner organizations, and, given the low premiums inherent in microinsurance, should improve the programme's potential through expanding value for clients and/or contributing to viability.

2- Assessment and Selection

The specific capacities and needs of each potential partner should be evaluated against the partnership objectives and desired attributes of a partner. Virtually all organizations interviewed identified aligned interests and objectives as a key component of a successful partnership. Objectives need to be aligned at different organizational levels – operational as well as managerial – in order to ensure effective implementation.

It is crucial to consider what benefits the microinsurance programme will bring to its partners and whether these benefits are sufficient to attract and maintain a partner's commitment to the project. A key insight from the study is that microinsurance partnerships must provide benefits to the distribution channel in addition to commissions in order to be successful in the long term. Commissions from microinsurance policies are generally small, and thus may be insufficient alone to ensure commitment from a distribution partner. The microinsurance programme will need to contribute positively and sufficiently to each partner's core business and objectives in order to be sustainable over the long term (Box 1 includes an example from Old Mutual in South Africa).

Box 1 Adding value to core operations

Even if microinsurance is not directly related to the partner's core business, it needs to add value to core operations. For example, providing microinsurance may attract new members or clients to a partner, help improve its client satisfaction and loyalty, or increase use of other services, as in the case of health insurance.

The partnership between Old Mutual, an insurer, and Shoprite, a low-cost retailer, in South Africa was based on the premise that Shoprite would benefit not only from the increased revenue through sales commissions, but also from building its reputation as a provider of a broad range of products and services, including financial services such as insurance. Though sales commissions are needed to offset direct costs, the strategic goal was to increase store traffic as a result of expanded product offerings.

One approach is for organizations to use an assessment questionnaire during the partner selection process. Such an assessment tool can be used to do a self-assessment (within different areas of the organization and overall) and to guide discussions between partners. A third party can be used to facilitate the process. This can provide a more objective and consistent analysis of the motivations and capacities of the partners that allows for greater dialogue and collaboration[2].

Old Mutual's funeral insurance "starter pack" sold through a retail channel in South Africa

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3- Implementation

The Implementation stage involves reaching agreement on the partnership terms and establishing the necessary agreements to launch the project. The first part of this stage (outlined in Box 2) includes designing the partnership and incentive structures and creating an initial joint business plan. This part may also include developing a preliminary Memorandum of Understanding (MoU) in order to set ground rules for the partnership. Once it is confirmed that the project will proceed, the partners need to work through any remaining steps, including defining roles and responsibilities, resolving operational issues and establishing appropriate communication.

Box 2 Implementation process

Part I: (may include preliminary MoU)

1. Decide partnership structure
2. Develop appropriate incentive structure for all partners
3. Create preliminary joint business plan

Part II:

4. Clearly define roles and responsibilities
5. Finalise business plan
6. Develop systems integration and reporting requirements
7. Formalise in final contract/legal agreement

Implementation should include preparing a joint business plan for the microinsurance programme. A business plan will include, among many components, targets for product sales and growth, break-even projections and marketing plans and expenses. The business plan should outline the contribution of each partner to expenses such

[2] A sample partnership assessment questionnaire is available on the Facility website at http://www.microinsurancefacility.org/sites/default/files/content/thematic_page/tools/Partnership_Assessment_Questionnaire.pdf

as systems development or marketing. A microinsurance business plan should include realistic timeframes and expectations for the programme to become sustainable. The business plan should be prepared jointly in order to manage the expectations of all partners. Unrealistic financial goals can have negative results.

Effective implementation of microinsurance partnerships includes a collaborative dialogue between the partners that develops trust, understanding and commitment, and usually concludes with the formalization of the partnership through a contractual agreement. Drafting a contractual agreement can be a technical or legal process, and may not facilitate discussion between operational staff. Therefore, before getting to the contractual process, partners should conduct a dialogue that involves all levels and functions of the organizations to ensure understanding and buy-in from all stakeholders within the organizations.

Implementation of a microinsurance partnership will normally conclude with formalising the terms of the partnership in a written agreement. If a MoU was previously created, then it may be replaced by a legal agreement at this point.

A formal written agreement is important because the process of drafting it forces all parties to be clear about the partnership objectives, roles and responsibilities, and expected outcomes, and it establishes a roadmap to manage the partnership. By itself, however, a written agreement will not automatically lead to a successful partnership. What is more important is the trust and commitment demonstrated in the relationship between the partners and the outcome of the dialogue and negotiation during the implementation of the partnership. In some situations a more informal agreement or an agreement that is not very detailed may provide more flexibility and innovation, provided there is sufficient commitment from the partners.

4- Maintenance

Key success factors at the Maintenance stage include collaborative product development, regular and effective communication, and prompt conflict resolution.

Slow growth or financial progress can challenge a partnership. A partnership structured around learning objectives, at least initially, can have a greater chance of successfully retaining commitment. In such a learning partnership continued commitment depends on recognizing the learning that has taken place, even when financial progress is incremental. The initial objectives are focused on understanding the factors that will lead to a successful program rather than only on specific statistics such as sales or claims. Setting specific learning objectives for a pilot, and documenting results and successes, provides evidence to the partners and other stakeholders that the project is moving forward. If managed well, a learning partnership allows for more flexibility to adapt the project. This may not necessarily prevent problems, but it enables a more collaborative problem-solving approach.

A lesson from the study is that multi-stakeholder partnerships require a strong central role to manage the project and resolve potential conflicts. In many cases bilateral MoUs or agreements are developed separately between the partners in a multi-partner arrangement; a single overarching MoU may be required in order to provide adequate collaboration.

5- Evaluation

Evaluation of the microinsurance partnership should encompass both an evaluation of the results of the microinsurance programme and the partnership relationship itself. This evaluation should be performed against the original goals and objectives for the partnership, as determined and agreed during the assessment process and initial implementation.

Frequent formal evaluation may not be necessary at the pilot stage unless forced by external events, such as regulatory changes. Informal evaluations to ensure that communication processes are in place and operational challenges are addressed may be sufficient initially, unless clear issues within the partnership management arise. However, even the best relationships can benefit from periodic formal review, and annual evaluations were recommended by many of the organizations interviewed for the study. Box 3 lists the most common triggers to conduct an evaluation.

Box 3 When to evaluate?

- At agreed timeframes for review, such as annually
- Due to a sudden external event, such as regulatory changes
- Upon unilateral action from one partner
- If experience significantly varies from the business plan or expected targets, such as low sales or high claims

6- Termination

Termination of a microinsurance partnership should be executed carefully, regardless of the reasons for termination. All partners need to consider the client perspective and take steps to minimise or avoid misunderstandings with clients and other stakeholders. In particular, existing insurance policies are likely to continue in force beyond the termination of the partnership, therefore systems and resources need to remain in place to administer premiums and claims. Leaving clients without adequate information about coverage or service options may damage the reputation of any or all partners, as well as the concept of microinsurance in the region.

Terms and provisions regarding rights, notice period obligations, responsibilities and procedures to terminate a partnership should be specified within the written partnership agreement, so that all parties know what to expect and what actions need to be taken. Once the decision to terminate a partnership or programme has been taken, good communication is key to ensuring consistent service delivery to clients.

External communications should also be considered carefully. Pilot microinsurance projects are sometimes high profile, and early termination may send a negative or confusing message about microinsurance to the public, including policymakers.

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CONCLUSION

Managing partnerships is not easy, but it is a crucial component in developing a successful microinsurance programme. The partnership life cycle provides a useful framework to analyse and improve existing and future partnerships in microinsurance.

As might be expected, partnerships tend to be easier to manage at the beginning when everyone is excited about the new venture, but become more challenging later on, as issues arise and need to be solved. Since, however, trust and commitment develop through solving challenges together, a partnership can grow stronger over time. After some problem-solving, partners should have a better understanding of the areas in which they need to collaborate more. The inevitable challenges of a microinsurance partnership can indeed be viewed not as an obstacle but as a necessary element of a sustained, successful partnership.

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

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