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BEYOND SALES: NEW FRONTIERS IN MICROINSURANCE DISTRIBUTION

Lessons for the next wave of microinsurance distribution innovation

Anja Smith, Herman Smit and Doubell Chamberlain
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Achieving scale through cost-effective distribution is one of the biggest challenges facing insurers in low-premium environments. The emphasis is increasingly falling on innovative distribution models as alternatives to traditional microinsurance distribution approaches, which typically rely on microfinance institutions. During the last decade, insurance providers and their distribution partners have been experimenting internationally with developing and extending products to clients in new ways. This note[1] takes stock of fourteen microinsurance business models in South Africa, Colombia, Brazil and India that use alternative distribution channels. It provides a summary of the cross-cutting issues and trends emerging across the different distribution models.

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 note, alternative distribution is defined as voluntary insurance models utilising partnerships with institutions traditionally not in the insurance space.

These models share the following characteristics:

- *Scale through aggregation:* Ability to achieve scale by targeting large non-insurance client concentrations such as clients of retailers, cell phone companies, utility companies etc.
- *Presence of infrastructure footprint:* 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. Buying 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.

Box 1 Distribution is not only sales.

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 activities. This process may involve several different entities including insurance companies, outsourced administrators, third-party payment providers and the client aggregator or distribution partner.

Passive vs. active sales models

Alternative distribution models can employ a passive or active sales model. Purely passive sales are where the prospective client is provided with no prompting or verbal communication on the product.

[1] This brief is excerpted from the Microinsurance Paper no. 8, which includes the relevant citations and details on methodology and the models reviewed. The paper is available at www.ilo.org/microinsurance. Anja Smith, Herman Smit and Doubell Chamberlain are part of The Center for Financial Regulation and Inclusion (CENFRI).

An example of this is when insurance products are placed on a shelf at a retailer and clients purchase them along with their groceries without any prompting from retailer staff. In contrast, purely active sales are where a representative of the insurer (or distribution partner) informs a client of the benefits of a particular product. For most passive cases, the sales process is initiated by the client, while for most active cases the sales process is initiated by the intermediary. The decision on which sales approach to utilise is often influenced by regulatory considerations. Passive sales processes tend to evolve in countries such as 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.

What is balanced distribution?

The performance of a particular distribution model needs to be assessed from both the client and business perspectives. While the client acquisition and premium collection can be said to be most important to businesses, the claims processing phase (realising product value) 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 optimise claims processing. However, in the long run, business partners need an efficient and convenient servicing and claims processing system to increase customer loyalty and retention.

MEET THE MODELS

Four categories of distribution models emerge from the fourteen cases reviewed for this study. 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. Table 1 provides an example of each distribution model.

Cash-based retailers

Cash-based retailers, such as supermarkets and clothing retailers, mostly offer standalone, simplified insurance policies through a passive sales model. Staff members of cash-based retailers generally do not actively engage or "push" merchandise sales.

Credit-based retailers

Credit-based retailers, such as furniture and electronic goods stores, offer mostly credit-linked yet voluntary insurance policies that are tied to the repayment period. The retailers often have a dedicated sales force in the store to provide advice, structure repayment agreements, and offer insurance. Insurance is actively sold and usually relates to the credit agreement (credit life policies) or goods sold on credit (extended warrantees).

Utility and telecommunications companies

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

Table 1 Examples of the distribution models[2]

Underwriter	Distribution partner(s)	Channel classification	Product and distribution description
Hollard Insurance (South Africa)	PEP	Cash-based retailer	Product: 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. Claims: Third-party administrator responsible for servicing policies and managing claims. Pep is responsible for cash premium collection. Enrolment: Significant take-up 215,000 policies in-force (2009).
MAPFRE (Brazil)	Casas Bahia	Credit-based retailer	Product: 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. Claims: 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. Enrolment: Significant take-up.
Alico Chartis (Colombia)	gasNatural Colombia	Utility and Telecommunications companies	Product: 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 using the gasNatural bill payment system to collect premiums. Claims: Administration is performed by Alico and Chartis. Claims can be submitted either at gasNatural call centre or Alico and Chartis directly. Enrolment: Significant take-up; 783,224 Chartis policies and 59,892 Alico policies in-force (2009)
cover2go Metropolitan (South Africa)	wiredloop	Third-party bill payment provider	Product: Family funeral product sold through rural vendor network, Wiredloop, with the use of GPRS-enabled point of sales terminals. The products are sold on a passive basis. Claims: Wiredloop is responsible for registering clients and collecting cash premiums. Cover2go is responsible for policy servicing and claims. Enrolment: Low levels of take-up; less than 1,000 policies sold (2010).

[2] Details on all fourteen cases can be found in Microinsurance Paper n°8, ILO, 2011

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Third-party bill payment providers

Third-party bill payment providers tend to offer simple 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 sent to a premium-rated short code.

EMERGING THEMES

A number of themes emerge from the fourteen models. Here we highlight some of the most prominent themes.

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 file a claim on an insurance product. 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; thus 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 that is able to sell policies, collect premiums, and process claims. Not all of the distribution categories 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. Given the strengths and weaknesses of different distribution channels considered in Table 2, the channel most able to do this is the credit-based retailer. While cash-based retailers may be able to grow into this role, the absence of a financial services culture may make it more difficult. Telecommunications and utility providers may also struggle to evolve into one-stop shops as client interactions mainly tend to happen through the post or telephone. However, the providers could make better use of call centres and short message services (SMS) to communicate with clients to improve their overall service offering. Offering more services may also be difficult for third-party payment networks as they often deal with informal vendors where skill levels are low.

Successful partnerships keep evolving

The alternative distribution models rely on partnerships with organisations not traditionally operating in insurance. 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 that receives a fixed percentage of commission. 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 its existing product range. Over time, this means that the distribution partner will have an incentive to play a larger role in product development. The most successful models are ones

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Table 2 Strengths and weaknesses of distribution channels

	Strengths	Weaknesses
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 • Motivated to offer higher value products to maintain/strengthen brand	• Cash-based premium collection may suffer from higher initial lapse-rates • Not oriented toward provision of financial services
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
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
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

where the distribution partners view the insurance offering as an explicit client retention strategy and where there is a direct link between the insurance and the distributor's core business.

Further efficiencies in distribution required

Going forward, the achievement of greater efficiencies in microinsurance is likely to require even more focus on lowering distribution costs. This may eventually require concerted efforts to start limiting the number of entities (e.g. brokers) in the value chain, which is likely to have implications on the way insurance companies choose to structure their partnerships with distribution channels. Insurers and their distribution partners will have to carefully consider their commission levels and profit sharing arrangements.

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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 the mortality 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.

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.

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

The **Centre for Financial Regulation and Inclusion** (Cenfri) is a non-profit think tank based in Cape Town and operating in collaboration with universities in the region. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. We do this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in the low-income market. http://www.cenfri.org/

International Labour Office

microinsurance@ilo.org
www.ilo.org/microinsurance