Microinsurance in Fiji

An Evaluation of Demand for Insurance

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The Pacific Financial Inclusion Programme (PFIP) is a Pacific-wide programme helping to provide sustainable financial services to low income households. It is funded by the Australian Agency for International Development (AusAID), the UN Capital Development Fund (UNCDF), the European Union and the United Nations Development Programme (UNDP) and operates from the UNDP Pacific Centre.

The Asian Development Bank's (ADB) Pacific Private Sector Development Initiative (PSDI) is a regional technical assistance project cofinanced by AusAID. It is designed to support efforts by ADB Pacific developing member countries to encourage private-sector led, sustainable economic growth. PSDI has focused on state-owned enterprise reform and public-private partnerships, improving access to financial services, and reform of the legal and business regulatory environments in the region.

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List of Acronyms

Asian Development Bank	ADB
Australian Agency for International Development	AusAID
Bank of South Pacific Life	BSPL
Fiji Muslim League	FML
International Association of Insurance Supervisors	IAIS
International Labour Organization	ILO
Life Insurance Corporation of India	LICI
Microfinance Institution	MFI
Microinsurance Academy	MIA
Microinsurance Innovation Facility	MIF
Pacific Financial Inclusion Programme	PFIP
Pacific Island Countries	PICs
Pacific Private Sector Development Initiative	PSDI
Point of Sale	POS
Price Sensitivity Meter	PSM
Reserve Bank of Fiji	RBF
Then India Sanmarga Ikya Sangam	TISI Sangam

Executive Summary

There is substantial demand for well-adapted insurance products in Fiji

As of 2010, the Reserve Bank of Fiji reports that only 88,085 life insurance policies were in force covering an estimated 9% of the population. Non-life insurance products such as personal accident insurance, health, and motor vehicle insurance only covered a small fraction of the population (Reserve Bank of Fiji). This leaves approximately 800,000 uninsured Fijians vulnerable to unexpected financial expenditures related to deaths, health emergencies, and crop failures. This report evaluates the demand for microinsurance among the members of four potential distribution partners based in Fiji: Partners in Community Development Fiji (PCDF), the Catholic Church of Fiji, the Fiji Muslim League, and Then India Sanmarga Ikya Sangam (TISI Sangam). Qualitative and quantitative research methods were used, in the form of focus group discussions, key informant interviews, and surveys. This study shows that demand for new insurance products does exist and provides proof of significant opportunities for insurance growth.

The research discovered that a substantial number of potential clients have the ability to pay for insurance in both urban and rural areas. Of the nearly 19,000 households represented in the study, nearly 10,000 households earn above the basic needs poverty levels (FJ$161.88 per household per week in rural settings and FJ$207.79 per household per week in urban settings) (World Bank). A majority of rural households reported to earn average weekly incomes above the rural poverty level. By overturning misconceptions that rural populations do not have expendable income, this study provides a new case for entering rural markets with financial products. The study discovered that people currently depend on loans from financial institutions, family and friends, and moneylenders to manage financial emergencies. Most loans are used to pay for expenses that can be covered through insurance, such as healthcare and community/family obligations related to funerals. A lack of awareness of insurance serves as the largest barrier for insurance expansion. Client education will therefore be a crucial starting point to any significant expansion of the insurance industry.

Researchers designed and priced 3 product concepts specifically for low- to middle-income populations in Fiji, based on feedback received during the focus group discussions: a health access and indemnity product and two life microinsurance products, including a life product with a childhood education guarantee. In general, respondents reacted positively to the design of the products in terms of coverage, benefits, and claims processes, although a low willingness to purchase was reported for the life microinsurance products at estimated premium levels. The reduced willingness to purchase certain products does not necessarily indicate a lack of demand for such products. Rather, it reinforces some of the challenges that the development of microinsurance will encounter. Cost-effective delivery models, including new premium collection and claim servicing processes, must be developed. There is great potential to partner with faith-based and community-based organizations to overcome distribution challenges. It must also be recognised that commercial microinsurance may be out of reach for those at the lowest income levels.

In Fiji, there appears to be substantial demand for well-adapted insurance services that cater to the unique needs and limitations of low- and middle-income households. Insurance companies recognize the need to expand beyond the estimated 9% of the population with insurance. However, some of the greatest barriers to entry into the market have been a lack of technical knowledge and a lack of data on the demand and potential market for insurance. This study provides a glimpse into what Fijians currently do to mitigate their financial risks and what they would like to see in insurance products for the uninsured. This information should be used to help increase the number of families protected from unexpected and impoverishing financial expenses.

1. Introduction

Economically, the Republic of Fiji is one of the most developed of the Pacific island countries (PICs). However, increasing income disparities threatens the livelihood of the country's most vulnerable populations. While the Fiji Islands Bureau of Statistics reports that there has been a reduction in poverty in recent years, the gap in income distribution has widened and the national poverty rate is estimated to be at nearly 35% (Fiji Islands Bureau of Statistics).

Unexpected financial expenditures related to deaths, health emergencies, and crop failures significantly threaten the ability of low- and middle-income households in Fiji to manage their budgets effectively. Moreover, cultural and social requirements can cost a household thousands of Fijian dollars and may result in significant financial pressures. For higher income households, insurance products have alleviated some of these financial pressures; but historically the unique needs of low- and middle-income households in Fiji have been excluded.

Insurance is the practice of pooling individual risks in a way that provides an agreed upon compensation for specified loss, damage, illness, or death in return for an upfront payment of a premium. The term *microinsurance* refers to the practice of delivering insurance in such a manner that accommodates the unique needs of covering the lives, health and property of lower-income populations. Unlike traditional insurance, the development of such schemes explores opportunities that prioritize affordability, education, and partnership.

As of 2010, the Reserve Bank of Fiji reports that only 88,085 life insurance policies were in force covering an estimated 9% of the population (Reserve Bank of Fiji). Non-life insurance products such as personal accident insurance, health, and motor vehicle insurance only covered a small fraction of the population (Reserve Bank of Fiji). This leaves approximately 800,000 uninsured Fijians vulnerable to unexpected financial pressures, for which they are left to depend on loans, money-lenders, and traditional forms of mutual assistance. Even households above the poverty level are at risk of impoverishment when faced with catastrophic financial expenses such as funerals, hospitalizations, and crop failure—all of which are insurable events.

Private insurance companies are typically involved in carrying risks, and require a commercial return. Potential clients who have lower incomes have limited expendable income for the payment of premiums. To gain a return on investment from entering lower income markets, insurance companies may need to sell a larger number of policies at lower profit-margins. However, the requirement to make a profit means that microinsurance may be beyond the reach of those at the lowest income levels, who do not have access to sufficient expendable income for the payment of premiums. Nevertheless, given the limited reach of traditional insurance products, significant opportunities for the delivery of microinsurance on commercial terms remain. To illustrate, the Pacific Financial Inclusion Programme (PFIP) developed the following graphic used to present the potential microinsurance market in Fiji as of July 2010.

Figure 1. Microinsurance Market Zones in Fiji (Pacific Financial Inclusion Programme)

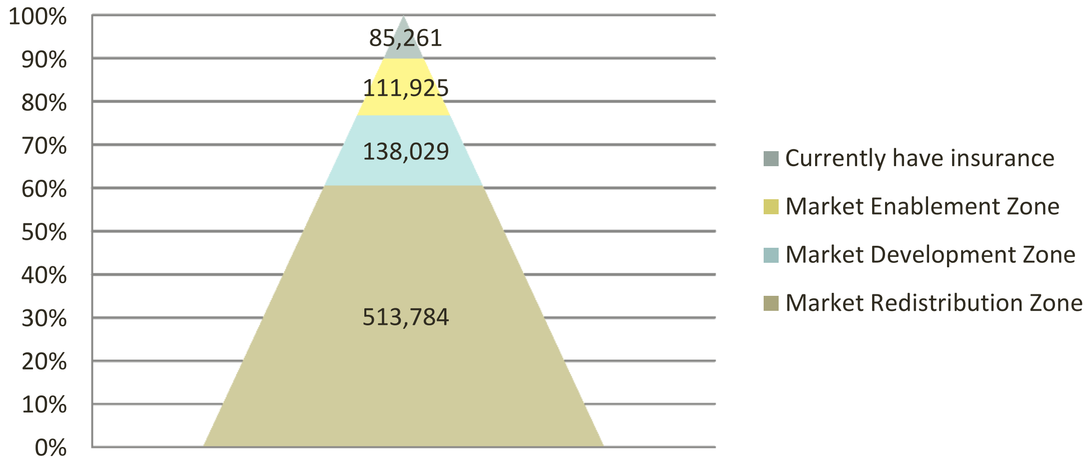

Figure 1 divides the Fijian population into "zones" with corresponding stages of insurance industry development.[1] At the top of the pyramid are people who currently have insurance. Below this population segment, the "Market Enablement Zone" refers to people that can be reached without significant changes to the industry's current offering of insurance products (est. 111,925 individuals). This segment of the population refers to people who may have the ability to pay for insurance, but may not have the awareness of the appropriate insurance products to purchase. The "Market Development Zone" refers to people that might be covered if new products are well adapted to their needs with effective marketing strategies (est. 138,029 individuals). This segment refers to people who may require that products be changed significantly in order to be affordable within their household budgets. The "Market Redistribution Zone" refers to people who are so remote or low-income that they are currently out of the reach of commercial microinsurance products (est. 513,784 individuals) (Pacific Financial Inclusion Programme). If implemented appropriately, microinsurance may prevent the estimated quarter-million individuals in the market enablement and development zones from falling into poverty.

By adapting insurance products to cover greater portions of the population, microinsurance may alleviate the strain on social protection systems covering those at lowest income levels. These social protection systems may range from formal government aid programs to informal cultural practices such as the Fijian tradition of mutual assistance. Rather than arguing for microinsurance to replace social protection systems, this study argues that microinsurance should complement social protection systems to reduce the impact of unforeseen events on both the person affected and the wider community.

The expansion of insurance outreach in large part relies on the leadership and capacity of private insurance companies to invest resources in the development of new products and innovative distribution strategies. To make this investment, insurance companies require rigorous market data to investigate if sufficient demand exists in lower-income markets and how that demand is characterized. The purpose of this study is to address this need for market data by evaluating the demand for insurance products among four potential distribution partners based in Fiji: Partners in Community

[1] PFIP used a conceptual approach known as the Access Frontier Methodology to develop this figure. The methodology defines the proportions of people who have effective access to financial products. For insurance, the frontier is likely to shift to include greater proportions of the population as microinsurance providers and products mature in the medium and longer terms. For more information on this methodology, please see: Porteous, David. *Making Markets Work for the Poor*. Rep. Cape Town: FinMark Trust, 2004.

Development Fiji (PCDF), the Catholic Church of Fiji, the Fiji Muslim League, and Then India Sanmarga Ikya Sangam (TISI Sangam). In total, these groups identified close to 19,000 households that may be reached by microinsurance products. A sample from each group participated in a series of focus group discussions (20 in total) and household surveys (n=811) that asked respondents about their critical financial risks, risk mitigation strategies, and awareness of insurance. This study argues that demand for new insurance products does exist and provides proof of significant opportunities for insurance growth, however hindered with significant challenges.

Section 2 lays out the data collection, approach, and product concept development method used for the study as well as describes each participating organization. Section 3 shows how a significant proportion of the groups surveyed may have the desire for insurance as well as the ability and willingness to pay for well-adapted insurance products. Section 4 provides marketing recommendations using the 4P's (product, price, place and promotion) marketing mix. This section identifies insurance challenges and provides recommendations related to controlling distribution and acquisition costs by partnering with existing networks. Section 5 concludes by outlining the steps necessary to support the design and launch of pilot microinsurance programs.

The Asian Development Bank (ADB) and the Pacific Financial Inclusion Programme (PFIP), in cooperation with the Australian Agency for International Development (AusAID), champion the development of insurance products for low-income and rural people in the region. Promoting microinsurance, these agencies seek to improve community resilience by encouraging private insurance providers to develop new products geared for historically underdeveloped markets.

For this report, ADB commissioned independent consultant, Josef Tayag, to oversee a market demand study for microinsurance through the Pacific Private Sector Development Initiative, cofinanced by AusAID. In parallel, PFIP commissioned the local market research firm Tebbutt Research to implement the focus groups and surveys for this study. Three insurance companies in Fiji (FijiCare, LICI Fiji, and Bank of South Pacific Life (BSPL)) contributed to the development of product concepts and the overall research design.

2. Methodology

This study uses qualitative and quantitative research methods in the form of focus group discussions, key informant interviews, and surveys implemented between August 2011 – October 2011. For each participating organization, 5 focus group discussions composed of 6 – 8 participants were hosted in the participants' natural language. This qualitative research drove the design of a household survey and product concepts tested in the quantitative portion of the market research. The household survey collected demographic information, awareness about insurance, financial practices, household risks, mobile money utilization, and coping strategies used to mitigate financial risk (n=811).

2.1 Description of the Sample

This report provides an analysis of the demand for microinsurance among four organizations that have expressed interest in becoming distribution partners: PCDF, the Catholic Church of Fiji, the Fiji Muslim League, and TISI Sangam. The following criteria were used to evaluate if potential distribution partners met minimum requirements for distributing microinsurance:

1. An outreach of at least 5,000 individuals
2. At least 5 years of audited financial statements
3. At least 5 years of trust among the communities they serve
4. Capacity for client education
5. Experience in cash handling

Such criteria ensure that potential distribution partners have the baseline requirements for management control and outreach required to deliver a microinsurance program.[2] Each organization identified branches that were logistically accessible and would represent sites for future programs, representing a total of 18,955 households (approximately 90,215 individuals). The following presents a description of each distribution partner.

2.1.1 Partners in Community Development Fiji

PCDF is a non-governmental organization (NGO) founded in 1979. The organization's mission is to empower and assist communities to protect the country's natural resources, promote good governance, reduce stigma attached to mental health, and promote local economic development. All of PCDF's work takes place in rural settings. PCDF selected 46 villages and settlements in which they have operations that composed an estimated 1,767 households (approximately 9,542 individuals).

2.1.2 Catholic Church of Fiji

Roughly 9% of the population in Fiji is Roman Catholic comprised of 80,365 individuals (Fiji Islands Bureau of Statistics). The Catholic Church selected 36 branches composed of an estimated 11,337 households (approximately 56,686 individuals). Of these branches 21 were located in rural locations, 3 in peri-urban locations, 12 in urban locations.

2.1.3 Fiji Muslim League

According to the 2007 Census, 6% of Fiji is Muslim comprised of 52,505 individuals (Fiji Islands Bureau of Statistics). In terms of ethnicity, 99% are Indo-Fijian with the others comprising several hundred Indigenous Fijians. The Fijian Muslim League was established in 1926 and it today has 27 branches on the main islands, where almost all the Muslims are located. The Fiji Muslim League selected 21 branches composed of an estimated 3,150 households (approximately 12,915 individuals). Of these branches 17 were from rural locations, 2 were in peri-urban locations, and 1 in an urban location.

2.1.4 Then India Sanmarga Ikya Sangam (TISI Sangam)

TISI Sangam is a South Indian Hindu organization registered in Fiji in 1937. Hindus represent 28% of the Fijian population and comprised of 233,414 individuals (Fiji Islands Bureau of Statistics). The core business of the association is to promote education, culture, religion, socio economic support and charity. TISI Sangam selected 16 branches composed of an estimated 2,700 households (approximately 11,070 individuals). Of these, 9 branches were located in rural locations, 4 in peri-urban locations, and 3 in urban locations.

2.2 Limitations

Because participating organizations selected branches that may serve as delivery sites, this methodology risks systematically focusing on larger branches that are logistically accessible. As a result, the concerns of extremely remote populations may be left out. A dependence on snowball sampling may moreover skew data to express the views of households who are more visible and more active in their organizations.

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[2] It is important to note that while 3 of the 4 organizations sampled in this study are faith-based, this study is by no means attempting to draw conclusions or make comparisons about people from different religions more broadly. Rather, this study approaches these groups as membership organizations with specific structures and unique characteristics and evaluates the organizations ability to contribute toward participating in the business of insurance.

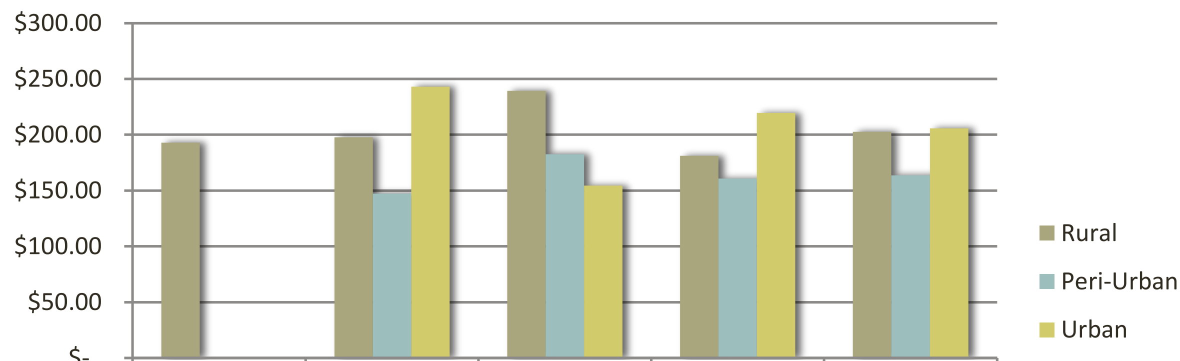
3. Findings

Demand for insurance was separated into 3 components, which are evaluated in the proceeding sections: clients' ability to pay for insurance, desire to obtain insurance, and willingness to pay for insurance. A fourth section includes an analysis of the capacity for each organization to maintain strong social networks necessary for microinsurance delivery.

3.1 Ability to pay for insurance

The research discovered that a substantial number of potential clients have the ability to pay for insurance. Figure 2 below shows average income levels of each group by rural, peri-urban, and urban locations. Not surprisingly, when the data was broken down by education level, large income disparities were found between households whose financial decision-maker completed no form of educational level and those households that completed some form of education. To illustrate, only 26-40% of households across all organizations are estimated to have completed up to a primary school level of education or less.

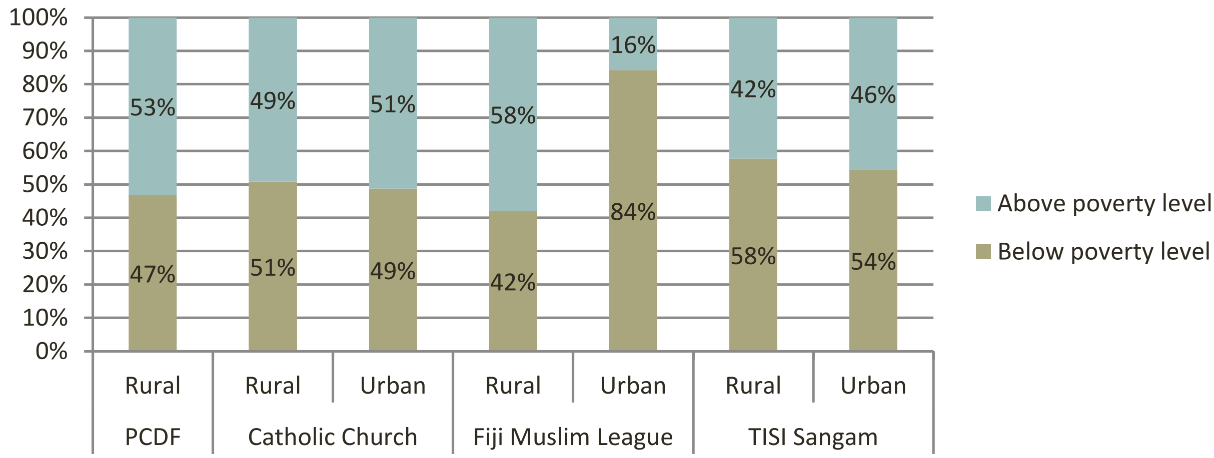
Figure 2. Average Income Levels by Group and Location



	PCDF	Catholic Church	Fiji Muslim League	TISI Sangam	All Groups
Rural	$193.05	$197.75	$239.26	$181.06	$202.78
Peri-Urban		$147.43	$182.68	$160.69	$163.60
Urban		$243.17	$154.53	$219.46	$205.72

Of the nearly 19,000 households represented by the four groups participating in the study, nearly 10,000 households earn above the basic needs poverty levels (FJ$161.88 per household per week in rural settings and FJ$207.79 per household per week in urban settings) (World Bank). As illustrated by figure 3, these households have incomes beyond the amount necessary to provide for the primary household priorities of food, shelter, and health, and thus would have greater ability to purchase microinsurance products.

Figure 3. Proportion of Households Above Urban and Rural Poverty Levels



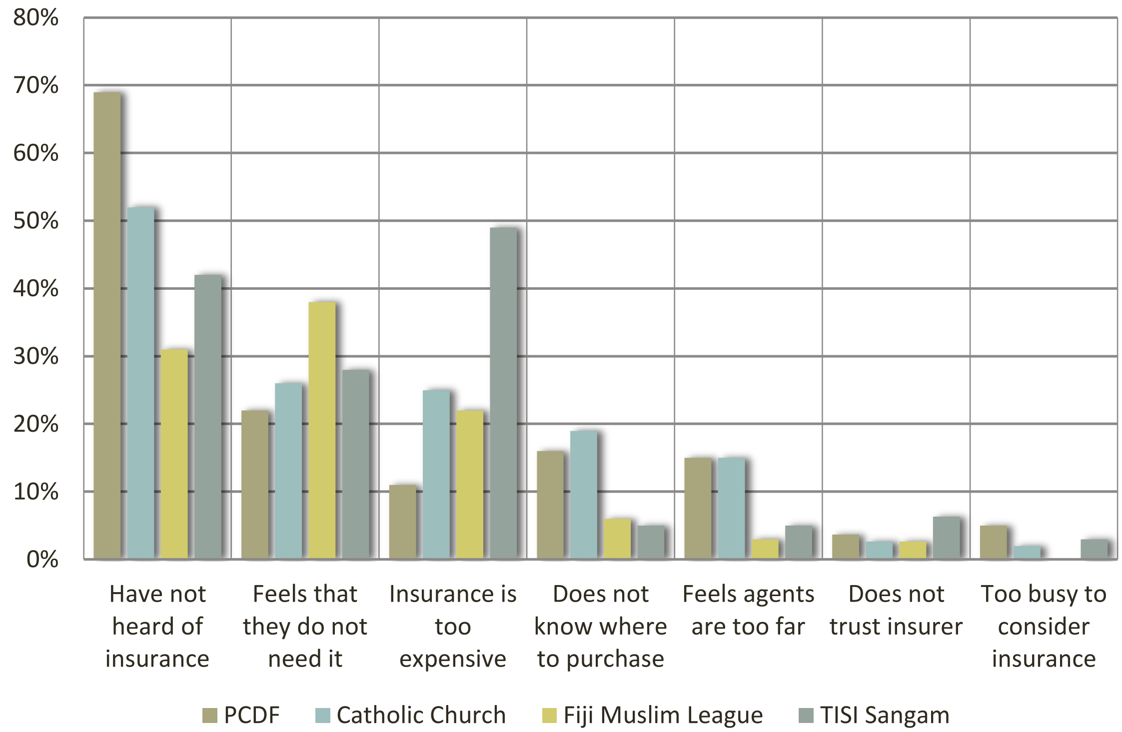
A majority of rural households across all organizations reported to earn average weekly incomes above the rural poverty level. By overturning misconceptions that rural populations do not have expendable income, this study provides a case for entering rural markets with financial products. The leading source of income across all groups is from wage employment. Rural household incomes were seasonal as related to agriculture, whereby incomes were highest in the months between June and December. This finding will need to be taken into account in product design, particularly around the collection of premiums.

A majority of households across all groups possess some form of savings, either formally in a bank or microfinance institution or informally at their home. The Catholic Church had the largest proportion of surveyed members with some form of savings, at 60%. This demonstrates that a substantial portion of the populations have expendable income after paying for their households' basic needs.

3.2 Desire to obtain insurance

In terms of desire to obtain insurance products, a lack of awareness of insurance was found to be the largest barrier for insurance expansion. A majority of respondents across all groups were aware of life and health insurance products. Life and health insurance products were the most commonly known products with a majority of each group reporting that they were aware of such products. As much as 31% of the population, however, is not aware of any type of insurance product. This will serve as a great challenge to product promotion. Nearly a quarter (23%) of all respondents from the Fiji Muslim League reported that they possessed some type of insurance. Among members in the Catholic Church and TISI Sangam, 13% and 17% respectively reported that they possessed some form of insurance. Only 6% of respondents from PCDF reported having insurance. Among those who reported possessing insurance, health and life insurance products were the most commonly possessed products with 56-73% and 38-58% of people reporting respectively.

Figure 4. Reasons for Not Having Insurance by Group



Client education will therefore be a crucial starting point to any significant expansion of the insurance industry. Having not heard of insurance or a lack of knowledge about insurance was the most commonly cited reason for not purchasing insurance as illustrated by Figure 3. This was especially true for respondents from PCDF, all of whose members live in rural areas. The second most commonly reported reason for not having insurance was the feeling of not needing insurance. Thirdly, insurance was also seen to be too expensive, especially by respondents from TISI Sangam, nearly 50% of whom reported this as a reason.

Apart from insurance, people who were surveyed ranked a list of household priorities according to their importance. This information allows product designed to prioritize coverage of insurance risks that are most important to the customer. Figure 5 shows the ten highest ranked household demands that respondents prioritized.

Figure 5. Primary Household Priorities

	PCDF	Catholic Church	Fiji Muslim League	TISI Sangam
1	Food	Food	Food	Food
2	Healthcare	Healthcare	Rent / housing / shelter	Healthcare
3	Education / School Fees	Education / School Fees	Healthcare	Clothing
4	Rent / housing / shelter	Rent / housing / shelter	Education / School Fees	Education / School Fees
5	Crops	Clothing	Clothing	Rent / housing / shelter
6	Clothing	Savings	Savings	Transport
7	Transport	Transport	Transport	Savings
8	Savings	Baptism, Circumcision (Childhood celebrations)	Funerals	Weddings

9	Livestock	Weddings	Weddings	Funerals
10	Baptism, Circumcision (Childhood celebrations)	Crops	Baptism, Circumcision (Childhood celebrations)	Baptism, Circumcision (Childhood celebrations)

The top half of the list can be classified as primary household priorities since they represent basic needs such as food, shelter, health, and education. Households across all groups value these items above all else when it comes to making financial decisions in their household.

After primary priorities, there are greater differences in how secondary household priorities. PCDF, Fiji Muslim League, and TISI Sangam all ranked transportation as high in household priority. This supports data suggesting that 75% of all healthcare costs are associated with transportation and the rise of urbanization as more Fijians seek work in urban settings (International Labour Organisation). Life cycle events such as funerals, weddings, and baptisms also appeared as secondary household priorities, though each group ranked them in different orders. Knowing these priorities is essential toward developing client education materials that appeal to the most important values in each group.

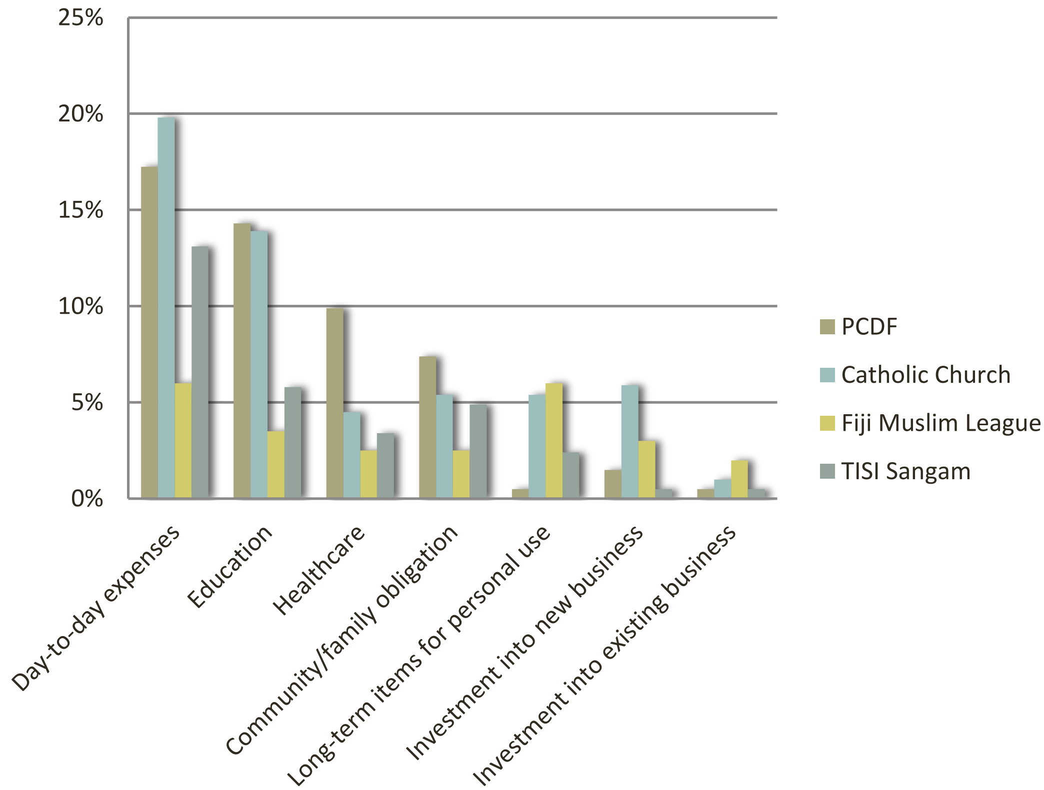
3.3 Willingness to purchase insurance

To quantify the amount that respondents would be willing to pay for insurance, researchers designed 3 product concepts based on feedback received during the focus group discussions. The first product was a health access and indemnity product that would cover the cost of transportation to a medical facility as well as the opportunity cost of not being able to work while being hospitalized. This product also accounts for the costs associated with room and board of a companion. The second product concept was a savings program with a life insurance cover that would direct benefits toward paying for a child's education until they graduate from secondary school. The third product concept was based on a life microinsurance product sold at the time of this research called Microlife, distributed by Life Insurance Corporation of India (LICI) Fiji. Three insurance companies in Fiji (FijiCare, LICI Fiji, and Bank of South Pacific Limited (BSPL)) that are actively pursuing the growth of microinsurance operations were consulted in the development of these product concepts.

In general, respondents were overwhelmingly satisfied with the design of the products in terms of coverage, benefits, and claims processes (see Appendix 1 for further details of the product concept analysis). A price range at which insurance companies may be willing to offer the product for delivery was developed for each product. Respondents were asked to estimate the value of the product in the market. They generally priced products within the estimated price ranges agreed to by insurance companies. However, when asked about their willingness to purchase the scheme, less than half of respondents reported being willing to purchase either the life plus education guarantee or life plus investment products. While further research is needed around the reasons for lower willingness to purchase, this is likely attributable to affordability issues and general awareness of insurance.

Instead of insurance, the study discovered that people currently depend on loans from financial institutions, family and friends, and moneylenders to manage unexpected financial expenses as illustrated by Figure 6.

Figure 6. Proportion of Groups Using Loans by Purpose of Withdrawing the Loan



In Fiji, loans from banks, neighbors, family and friends serve as a kind of "competition" for microinsurance products. People in Fiji use loans to finance day-to-day needs, education, healthcare, community and family obligations. A lesser proportion of people use loans to pay for long-term items for personal use (e.g. vehicles, televisions, computers, etc.). Most loans fulfill roles that insurance can cover, such as healthcare and community/family obligations related to funerals. Insurance products attached to savings programs may be better equipped to manage long-term, predictable expenses such as education, weddings, and other investments. Given the current low insurance uptake, insurance providers would compete with existing financial practices, rather than with other insurance products currently in the market.

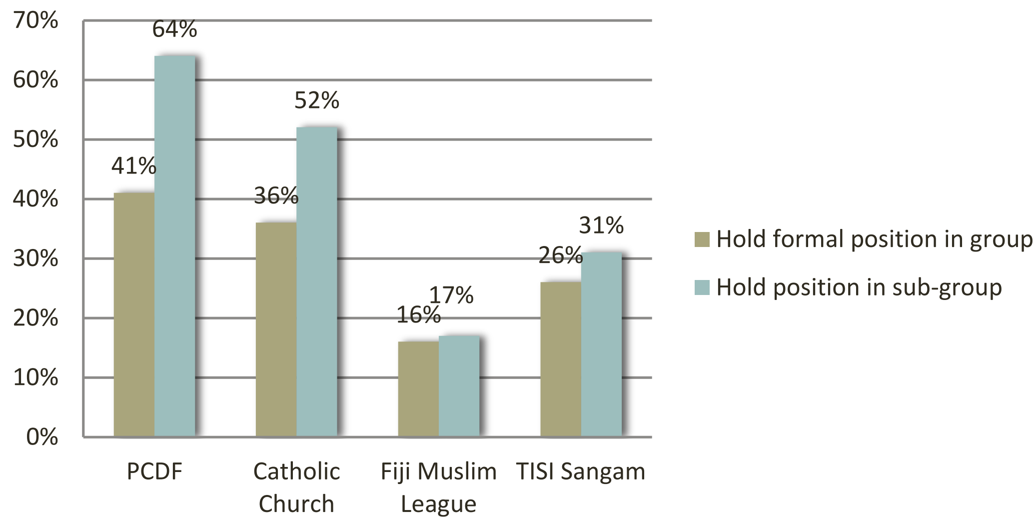
3.4 Groups contain wide social networks

Low profit margins in microinsurance business often mean that these initiatives need to generate large policy volumes to earn reasonable profits. Achieving large policy volumes furthermore helps maintain a stable pool of risks. Acquiring large volumes of new clients, however, comes at a cost. For example, traditional methods of selling insurance such as the use of agents and brokers generally have a scope limited to urban areas. Implementing similar distribution strategies in rural and remote settings would be not be logistically feasible or too expensive for the lower revenues generated by microinsurance business.

Partnering with large organizations that may serve as alternative distribution channels may offer a solution. On top of having significant reach, each participating organization had an infrastructure to facilitate client education and monetary transactions that reached across vast geographies. Partnering with these organizations would thus significantly reduce start-up cost (for example in the development of new branches); but will require additional investments to build the capacity of the organizations to conduct client education and insurance promotion.

High member activism across all groups measured by frequency of attendance and financial contributions to the group (amount and regularity) is a positive sign that organizations such as those studied would serve as powerful allies for insurance delivery. As shown by Figure 7, PCDF and the Catholic Church had the most active members among the groups with 41% and 36% of members having a formal position in the group, respectively. It is likely to be easier to engage volunteers to conduct client education among members who are already active within their organizations. Members of the Fiji Muslims League had the lowest number of members with formal positions or membership in sub-groups (sub-groups refer to smaller groups such as women's or youth groups housed within each larger group).

Figure 7. Group Participation



A strategy of leveraging partners to collect premiums, pay claims, make policy amendments, and communicate with individual policy holders could significantly reduce the cost of acquisition and administration. However, since these groups lack the experience of assisting in insurance delivery, they will need to work closely in building their capacity to do so.

The use of mobile money platforms may serve as a potential solution for reducing distribution costs by switching the reliance from sales agents to direct payments or transactions through the mobile network. This strategy would require a high penetration of mobile phones and high utilization of the mobile money services. While possession of mobile phones is quite high across all groups (68-97% of households), the utilization of mobile money services is currently low. The use of mobile money platforms to facilitate microinsurance activities may promote greater utilization of mobile money while cutting administration costs for the insurance provider. However, mobile money providers in Fiji must first increase the uptake and understanding of mobile money services before being able to encourage its role in insurance delivery.

Few households were aware that they had access to mobile money accounts on their mobile phones. TISI Sangam had the highest proportion (26%) of members with awareness and access. The Catholic Church and the Fiji Muslim League had 15% and 20% of their members with awareness and access, respectively. PCDF had the lowest proportion (3%) of members with awareness and access. The Fiji Muslim League and TISI Sangam had the highest proportion (8%) of their members who had ever used their mobile money account. Only 3% of members from the Catholic Church and 1% of members from

PCDF reported ever using their mobile money account. The main reasons for using their mobile money service are for topping up mobile phone credit or sending money to a relative or friend.

A central thesis of this study has been that partnerships may significantly increase chances of achieving scale and therefore sustainability. From the client's perspective, working with distribution partners capitalizes on the trust, awareness of client preferences, and outreach of established organizations. Products and processes designed to accommodate the existing processes and beliefs of individuals through their membership organizations have a better chance of delivering client value than products designed in isolation and delivered in the same manner as standard insurance. From the insurer's perspective, working with distribution partners may significantly affect their profitability by tapping into organizations' existing scale, reducing acquisition costs by capitalizing on organizations' workforce, and managing their costs of claims. Partnerships will only succeed if stakeholders have fair opportunities to gain. For newer partnerships especially, this will require commitment, time, and trust; things that must be viewed as long-term investments toward the delivery of protection mechanisms to the 91% of the Fijian population without insurance.

4. Marketing Recommendations

The proceeding section presents marketing recommendations in light of parameters of the market's ability to pay, desire for insurance, and willingness to pay as evaluated in the preceding section. Challenges and opportunities were identified from both the client perspective and from the insurance companies' perspective.[3] The 4 components of marketing (product, price, place, and promotion) were used to structure recommendations for the development of a well-rounded marketing strategy.

4.1 Product

4.1.1 Financial literacy and other value-added services must be offered.

The most frequently cited reasons for not having insurance is the lack of awareness of insurance and the feeling that respondents did not need insurance. This is likely a symptom of generally lower levels of financial competence. Microinsurance providers must build upon a foundation of financial literacy before attempting to deliver insurance products. Investing in client education is therefore another form of delivering value-added services that contributes to the tangibility of insurance products in the minds of clients. While value-added services were not included in the development of the product concepts tested here, other methods for delivering value-added services may be by bundling microinsurance as a part of a loyalty program for mobile phone providers or other distributors. Instituting call centers that address client questions and account management may be another method for delivering tangible client benefits.

4.1.2 Microinsurance products must match the most important risk management needs of the target population.

Beyond day-to-day expenses, respondents prioritized their expenditures for funerals, healthcare, and other social obligations such as weddings and baptisms. Events such as death or hospitalization are genuinely insurable risks, which justifies why the three product concepts center on these events. Expenditures related to education, weddings, or community occasions are likely better handled with some form of savings since clients are able to plan ahead for such expenditures. For these instances, attaching a life insurance policy along with a savings plan may be most appropriate for the target population. While the microinsurance market is still immature, it should focus on simple products in the near term and then move on to more sophisticated product offerings after achieving sustainable business processes.

[3] For client perspective, the Product Access Cost Experience (PACE) Client Value Measurement Tool (Matul, Kelly and Tatin-Jaleran 2011) was used as a framework to evaluate the data. For the insurance perspective, a framework for evaluating the profitability of microinsurance providers developed by the Microinsurance Innovation Facility was used to evaluate the data (Angove and Tande 2011).

4.1.3 Product features encapsulated in coverage, eligibility criteria, and benefits must be simple to understand and match the cultural context.

A majority of respondents across all groups were aware of life and health insurance products. In general, respondents from the Fiji Muslim League seemed slightly more aware of the different types of products available. Respondents from PCDF appeared to be the least aware of insurance products, though only slightly. With such large populations unaware of insurance, insurance providers should develop simple products that people with little experience with insurance may be able to understand.

Products must be designed with clear triggers, such as death or hospitalization. Eligibility criteria must also be designed to be as inclusive as possible without severely endangering the sustainability of the product. PCDF especially advocated for the development of group or village policies that would better match social norms, rather than depending on household or individual conventions. For insured events such as death and hospitalization, instituting waiting periods may be easier to communicate rather than requiring health checks or setting prohibitive age limits. Insurers should define simple benefit levels and avoid offering more than 2 or 3 product tiers.

4.1.4 The sum-insured must estimate the true cost of the risk.

The benefit levels of each product concept tested in this study was matched according to data derived from the focus group discussions on the perceived cost of primary and secondary school education, funerals, as well as non-medical out-of-pocket expenditures associated with hospitalization. For example, the indirect out-of-pocket cost of hospitalization was estimated to be FJ$800.00 per hospitalization. For insurers interested in delivering life insurance, an average Fijian funeral may cost between FJ$4,000 - 6,000. In comparison, a funeral benefit that only covers FJ$2,000 of that cost may not appeal to clients. A microinsurance product therefore must not simply reduce the sum insured in comparison to standard products; rather, microinsurance requires rethinking product delivery to reduce administrative and acquisition costs while striving to maintain sum-insured amounts that estimate the true cost of the risk.

4.1.5 Insurers must focus on tangibility through policy documentation and maintaining communications.

Providing tangibility can be as simple as offering a membership card and sending follow-up text messages with information related to the insurance policy. Microinsurance providers in the Philippines, for example, excel at quickly delivering policy certificates or insurance cards to their members. RSBY in India issues membership cards on the spot during its enrolment campaigns with the use of new technology. Research has found that failure to distribute any policy document or tangible proof of being insured poses a challenges for ensuring that clients to see the tangibility and value of their insurance plan (Matul, Kelly and Tatin-Jaleran).

4.2 Price

4.2.1 Design products that provide value for money.

Along with comparing perceived value with a populations' willingness to buy, microinsurance products must deliver value for money to clients by offering a premium level that is appropriately proportional to the benefit. Furthermore, premiums calculated by insurers should be matched against average household incomes. This will serve to measure how rational a product's offerings are in relation to the client's incomes. A positive sign is that the actuarially calculated price points estimated in the study lie within the acceptable price ranges discovered in the product concept testing. This means that clients' perceived value of the insurance cover similarly matches the price at which an insurer may deliver the product.

4.2.2 Use partnerships to contract cost structures and prevent adverse selection, moral hazard, and fraud.

Claims costs are managed mainly through the design of the initiative, pricing for the risks, and managing of risks. Partner organizations should be included in the initiative design to facilitate tasks such as educating members on product details to prevent claims rejection, encouraging group involvement in policies to prevent adverse selection, and gaining continual feedback on customer satisfaction. Distribution partners may also assist in preventing fraud by creating a culture of self-policing in the utilization of the insurance policies. Given the influence and structure of the groups, partner organizations may perform tasks that help control insurance costs in the long term. These partner organizations should receive a commission proportional to the amount of resources the organization requires to implement the tasks they are responsible for completing.

4.2.3 Consider indirect costs and time associated with obtaining insurance.

How a client's money is kept has a relationship to how quickly a client can access cash to pay for a premium. Reducing these costs to the consumer by facilitating remote premium payments may significantly reduce the indirect costs of paying insurance premiums. The use of mobile money platforms or point-of-sale (POS) devices located in rural locations may reduce the indirect costs associated with obtaining insurance from the perspective of the client, but will likely introduce commission or transaction fees to the insurer.

4.3 Place

4.3.1 Use partners to achieve scale.

Microinsurance programs need to achieve scale to cover the costs of building the business and other fixed costs. Low margins in microinsurance business often means that these initiatives need to generate larger policy volume to generate reasonable profit levels relative to other business. Scale is also needed to maintain a stable pool of risks. The distribution partners evaluated in this study were chosen because they had a reach of over 5,000 individuals. Secondly, the organizations already had an infrastructure to facilitate client education and cash transactions that reached across vast geographies. Partnering with these organizations would significantly reduce start-up cost (for e.g. in the development of new branches); but will require additional investments to build the capacity of the organizations to conduct client education and insurance promotion tasks. Lastly, insurers should consider developing group policies that cover villages, organizational sub-groups (i.e. women or youth groups) or branches. This would be more cost-effective compared to individual sales. Group policies, if designed and managed correctly, may lead to more sustainable risk pools if insurers work with distribution partners to prevent adverse selection and ensure that risk is evenly distributed across all the members included in the group policy.

4.3.2 Use partners to maintain connection with clients over time.

Partnerships are important not only to focus on selling large volumes of policies, but also to retain customers. A key factor in customer satisfaction is maintaining the tangibility of the product through customer service. Utilizing the partner organizations' communication channels already in place through group meetings, promoting insurance-related news into organizations' publications, or receiving complaints, questions or concerns through group leaders will significantly improve an insurance providers' relationship with clients over time.

4.3.3 Use organizational partners' resources as for a potential workforce.

The amount of group participation among an organization's members can serve as an indicator for resources available to perform administrative insurance functions. All four groups evaluated in this study had an active membership measured either by the proportion of their members with official positions or by the frequency that members attend group meetings. These resources who have a trusted presence in these communities are good candidates for conducting client education, product promotion, or serving as liaisons for insurers.

4.3.4 Include distribution partners in the process design.

Premium collection processes may be streamlined with the frequency of collections members make to their groups. The Catholic Church and Fiji Muslim League have the highest frequency of financial contributions from their members, though PCDF has 39% of their membership contributing at least 2 times a month. Along with collecting money, new and renewing members must complete necessary registration information to deliver to insurers. There are opportunities to simplify these processes by incorporating the premium collection and registration processes into existing monetary transaction processes. This should allow for efficient cash handling from the perspective of the client and generally lower cost than instituting completely new processes. However, distribution partners should be careful to avoid conflicts of interest related to cash handling. For example, if insurers decide to distribute through a faith-based organization, the insurer should be careful that their premium collections avoid interfering with the regular donations to the church/temple/mosque. Likewise, faith-based organizations that take on the task of collecting premium payments avoid situations that may tempt leaders to use premium funds for other purposes that may generate reputational risk.

4.4 Promotion

4.4.1 Focus promotion on client education and product promotion.

Insurance competes with members' behaviors that take the form of depending on loans and borrowing from family and neighbors to manage financial emergencies. A large portion of the population (between 61-79%) who report that they are aware of insurance, but may not be critically evaluating their risk mitigation strategies. These groups require client education. Client education involves teaching members about how risk-pooling works and how it may serve as an alternative to their current methods of handling financial emergencies. After members have a base of knowledge of insurance and other options for managing financial emergencies, insurers may then conduct product promotion.

For the population that is aware of insurance and is evaluating their current practices, product promotion is key for microinsurance providers. Product promotion advertises that microinsurance is a better option through marketing messages that position the insurance program as a safer, easier, and more dependable method of planning for financial emergencies. Product promotion helps members decide if insurance is the best option for them.

4.4.2 Position insurance against bank loans, loans from neighbors, and loans from money lenders.

Bank loans. Focus group respondents reported that banks were generally inconvenient to access because of the small number of ATMs and branches. Similar to how ANZ has positioned itself as a bank committed to serving people in remote places, microinsurance providers may position themselves as meeting clients locally through trusted distribution partners.

Loans from neighbors. Focus group respondents reported that getting loans from neighbors was a social obligation rooted in Fijian culture. However, they also reported that these social and financial obligations are putting an increasing strain on their families. Providers may use messaging that promotes microinsurance as a means to prevent putting a strain on family and neighbors in difficult times.

Loans from money-lenders. Focus group respondents reported that independent money-lenders were easy to get loans from. However, they also reported that money-lenders charge dangerously high interest that perpetuated debt. Providers should position microinsurance as trusted, regulated provider that can protect clients from the dangers of independent money-lenders.

4.4.3 Address tensions between religion and insurance.

Insurance providers looking to develop microinsurance products must consider potential religious barriers. The perception of Fiji Muslim League's members that products may be against their religion must be addressed. One method to do this is by instituting a microinsurance program that adheres to the principles of Islamic banking as recommended by an earlier scoping study (Garand and Wipf).

4.4.4 Messages and marketing materials should be accessible.

Large portions of the population have only completed a primary school level of education. Furthermore, households with financial decision-makers who have only completed primary school education earn on average both the rural and urban poverty levels. Marketing messages should therefore use language that meets this lowest common denominator. Microinsurance marketing materials should be tested with audiences that have completed only primary school level of education.

5. Concluding Remarks

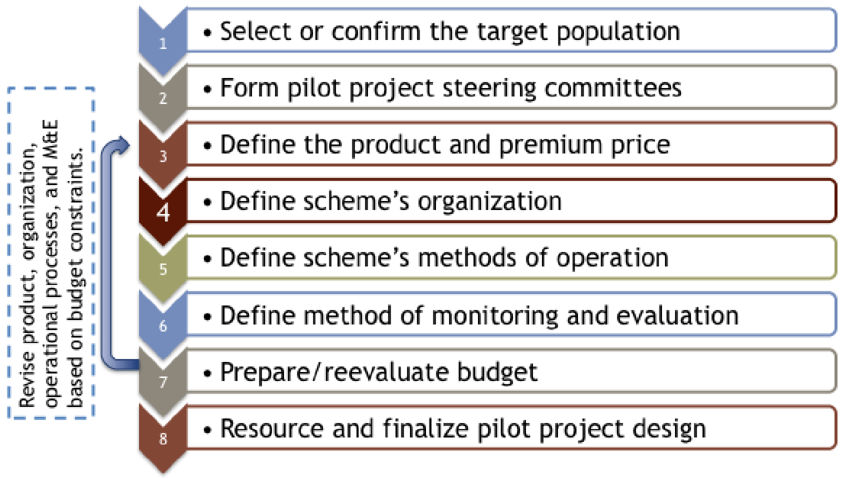
In Fiji, there appears to be substantial demand for well-adapted insurance services that cater to the unique needs and limitations of low- and middle-income households. Insurance companies recognize the need to expand beyond the estimated 9% of the population with insurance. However, insurance providers have faced two barriers to entry into the microinsurance market: the first has been a lack of data on the demand for well-adapted insurance products; and the second is the lack of technical expertise in launching commercial microinsurance schemes. To address the first barrier to entry, this study provides a glimpse into what Fijians currently do to mitigate their financial risks and what they would like to see in insurance products for the uninsured.

This study shows that a significant proportion of the populations represented in this study have disposable income in both rural and urban populations. By overturning misconceptions that rural populations do not have expendable income, this study provides a new case for entering rural markets with microinsurance and other financial products. In response to the 3 product concepts that were developed and priced specifically for low- to middle-income populations in Fiji, participants reacted positively, which gives further evidence of the desire and willingness to pay for well-adapted insurance products. Furthermore, despite low exposure to insurance products, the populations reported a generally positive perception of the insurance industry. This study illustrates that there is a positive environment in Fiji for the development of commercial microinsurance products that serve the low- and middle-income segments of the population.

The research also revealed great challenges. Research shows that low levels of understanding of insurance were common across all populations studied. Furthermore, for those populations in rural and remote settings, insurance companies need to develop completely new premium collection and claims servicing processes. Partnering with the faith-based and community-based organizations as distribution channels may help to overcome these challenges. Respondents reported great trust in these groups and these groups have a history of delivering education as well as social and economic support to their members. A host of donor agencies and government regulators have a key interest in supporting the development of pilot microinsurance products, and they should support the development of these partnerships.

While the findings contained in this report provide an overview of the potential for and barriers to microinsurance product development in Fiji, it is important that they are incorporated in the design of pilot projects to test the feasibility of microinsurance schemes in real world settings. To place the market research into context, figure 8 illustrates the steps necessary to use the market research to launch pilot projects. Technical expertise, the second barrier to entry, will be needed to ensure that each step presented below is executed appropriately.

Figure 8. Steps to Launching a Microinsurance Pilot Project



The first step in the process involves confirming the target population in which to launch a pilot project. Insurance companies should consider which population they would prefer to launch a product with in light of other competing priorities. Organizations with an interest in supporting community development, such as those participating in the study, should also consider their capacity to serve as distribution channels for microinsurance. As a second step, if stakeholders feel that there is an opportunity for partnership, each organization should assemble steering committees to lead partnership negotiations. These committees should include high-level individuals with close involvement with the financial and managerial aspects of each organization. As a third step, the steering committee should define the product offering by agreeing on the product type, benefit limits, and exclusions. As a fourth step, the steering committees should define the microinsurance scheme's organization. The scheme's organizational structure identifies who will be managing back office claims administration, front office distribution, and method of managing the risk pool. As a fifth step, members of the steering committee should determine the business processes that will define how marketing is conducted, how premiums are collected, and how policies are administered. As a sixth step, the steering committees will need to define the requirements for monitoring and evaluating the progress, profitability, and impact of the pilot project plan. Depending on the frequency of the risk insured, it is recommended that microinsurance pilot projects run at least 6-12 months to truly test the suitability of the processes. The third, fourth, fifth, and sixth steps should inform the seventh step: budgeting. Steering committees should analyse the cost of implementing the agreed structure, processes, and rigor of evaluation against their potential for benefits. After the budget has been agreed, the steering committees will resource and finalize the pilot project design in a formal contract.

Donor agencies may be able to support potential distribution organizations and insurance companies through each step of the pilot design process by connecting stakeholders with technical experts. The Pacific Financial Inclusion Programme (PFIP) and partner organizations have already contributed to this, by hosting training seminars focused on business planning and key performance indicators for stakeholders. Further donor support should focus on delivering expertise to assist organizations through steps 3-7. Product design experts and those with actuarial expertise may assist stakeholders with defining products in data-scarce environments. To support steps 4-7, individuals with operational expertise in microinsurance delivery in resource-poor and remote settings may contribute to assist stakeholders in identifying project risks, contingencies, and work-arounds. These experts may also assist in determining the intensity of resources required to implement an adequate pilot project. For step 8, an experienced project manager may be required to oversee progress, reporting and coordinate communication between steering committees. Lastly, donor organizations may help identify, analyse, and report any regulatory issues that may arise in the implementation of microinsurance. The aim of providing this technical assistance should be short-term to build the capacity of each organization to eventually own each step of the process.

At the time of this report's writing, the Reserve Bank of Fiji (RBF), the regulatory body tasked with overseeing insurance business, is considering policies for the regulation of microinsurance. The regulators should continue to monitor the development for international guidelines for microinsurance, while recognizing that for such a small market in Fiji, it may be most efficient to regulate microinsurance business in the same manner as standard insurance.

A central thesis of this study has been that partnerships may significantly increase chances of achieving sustainability. From the client's perspective, working with distribution partners capitalizes on the trust, awareness of client preferences, and outreach of established organizations. Products and processes designed to accommodate the existing processes and beliefs of individuals through their membership organizations have a better chance of delivering client value than products designed in isolation and delivered in the same manner as standard insurance. From the insurer's perspective, working with distribution partners may significantly affect their profitability by tapping into organizations' existing scale, reducing acquisition costs by capitalizing on organizations' workforce, and managing their costs of claims. Partnerships will only succeed if stakeholders have fair opportunities to gain. For newer partnerships especially, this will require commitment, time, and trust; things that must be viewed as long-term investments toward the delivery of protection mechanisms to the 91% of the Fijian population currently without insurance.

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Appendix: Product Concept Test Results

The survey tested respondents' understanding and satisfaction with 3 product concepts presented in Table 7. Each product concept presents a high-level description of an insurance product designed according to its coverage, benefit level, and claim processing timelines. For the purpose of concept testing, no limits or sub-limits were mentioned to avoid complexity.

Table 1. Microinsurance Product Concepts

Microinsurance Product Concepts
Product 1. Health Access and Indemnity
Coverage. This product covers the costs of the policyholder associated with obtaining healthcare that requires hospitalization for more than 48 hours. This product does not cover the medical costs, but rather covers indirect costs which may include transportation to/from the health facility, the opportunity-cost of missing employment, as well as accommodation and board for accompanying caretakers. **Benefit.** The benefit takes the form of a lump sum payment of FJ$800 in cash per hospitalization requiring more than 48 hours. **Claims Processing.** Within 5 days of notification and presentation of proof of inpatient admission, all the benefits are transferred to the client in cash.
Product 2. Life Microinsurance Plus Childhood Education Guarantee
Coverage. This product allows clients to regularly contribute into a savings program tied to a special life insurance policy. The client must make regular contributions for 15 years. At the end of the 15 years, the client may receive the sum of their contributions with an additional interest amount to use however they see fit. If the client dies before the end of the 15-year term, then the program will pay the costs of putting one child through to the completion of their secondary school education. The expenses meant to be covered are those associated with school fees, supplies, uniforms, and other miscellaneous school-related expenses for however many years it takes for the policy holder's beneficiary to complete their secondary school education. This product allows parents to be sure that their children will be able to achieve a standard of education in case anything drastic happens to them. **Benefit.** The benefit takes the form annual payments of FJ$800 contingent on presenting proof of the designated child's enrolment in a accredited primary or secondary school. This will help guarantee that your child is able to complete secondary school. **Claims Processing.** Within 2 weeks of presentation of proof of enrolment in an accredited school, the insurance company will start paying the benefits payments annually until the child graduates from secondary school.
Product 3. Life Microinsurance with Investment Plan
Coverage. This product allows clients to regularly contribute into a savings program tied to a special life insurance policy. The client must make regular contributions for 5 years. At the end of the 5 years, the client may receive the sum of their contributions with an additional interest amount earned to use however they see fit. If the client dies before the end of the 5-year term, the insurance program will pay an amount to cover the funeral expenses and assist the client's family members. **Benefit.** If the client dies before the end of the 5-year term, the insurance program will give the member's family $2,000 to cover the cost of the funeral and assist the client's family members. If the client' death is caused by an accident, then the insurance program will pay an additional $2,000 for a total of benefit of $4,000 for accidental death to cover the cost of the funeral and assist family members. **Claims Processing.** The insurance company will pay out $200 immediately upon reporting the death. Within 2 weeks of presentation of proof of the client's death, the insurance company will pay out the rest of the total benefit.

Each product was tested in 3 stages. The first stage of testing measured members' satisfaction with the coverage, benefit, and claim process without reference to a price. The second stage uses a technique called the Van Westendorp Price Sensitivity Meter (PSM) to determine pricing preferences.[4] This stage allows members to appraise the value the product without reference to an actuarially calculated price. The last stage of testing measures members' likelihood to purchase the product concepts at an actuarially calculated price.[5] At this last stage, members must imagine their willingness to purchase the product at the actuarially calculated price taking into consideration their other household priorities.

In general, respondents were overwhelmingly satisfied with the design of the products in terms of coverage, benefits, and claims processes. A price range at which insurance companies may be willing to offer the product for delivery was developed for each product. Respondents were asked to estimate the value of the product in the market. They generally priced products within the estimated price ranges agreed to by insurance companies. However, when asked about their willingness to purchase the scheme, less than half of respondents reported being willing to purchase either the life plus education guarantee or life plus investment products. While further research is needed around the reasons for lower willingness to purchase, this is likely attributable to affordability issues and general awareness of insurance.

For the Health Access Product Concept, the price of FJ$17.00 per household of 6 per month represents the actuarially calculated price at the time of implementing the survey. Discoveries after the implementation of the survey, however, suggest that a better approximation of the price for the Health Access Product Concept is more likely to be between FJ$30.00 – 48.00 per household per month. At the price of FJ$17.00 per household of 6 people, just over 70% of the population report the likelihood to purchase the product; but it can be assumed that a lower portion of the population would report likely or very like to purchase a product more appropriately priced between FJ$30.00 – 48.00.

At the actuarially calculated price of FJ$35.00, 40% of the population report that they would either likely or very likely purchase the Life Plus Educational Guarantee Product Concept. At a lower price of FJ$28.00, 69% of respondents positively report their likeliness to purchase the product.

At the actuarially calculated price of FJ$39.00, 36% of the population report that they would either likely or very likely purchase the Life Microinsurance Plus Investment Plan Product Concept. At a lower price of FJ$33.00, 56% of respondents positively report their likeliness to purchase the product.

[4] The Van Westendorp Price Sensitivity Meter (PSM) pricing technique was used to determine price preferences on the product concepts. Using a series of questions, this technique arrives at three different price points and ranges:

1. **Acceptable (indifference) price point.** This is the price at which an equal number of respondents rate the price as either "cheap" or "expensive." This is the point where we have generally more agreement
2. **Preferred/Optimal price point.** This is the point where an equal number of respondents feel that the price is too cheap as those who feel it is too expensive. This is the point where there is an equal trade-off between the two extremes
3. **Acceptable price range.** This is the point where the number who feel that an offer is too cheap equals those who feel that it is expensive and the number who feel that it is cheap equals that of those who perceive it to be too expensive. It is where prices offset each other yielding a price range that is deemed acceptable.

[5] To calculate the price in light of the lack of data: the rate of hospitalization and the crude death rate were used to calculate risk. Severity for the health access product was calculated using focus groups responses of the perceived cost of transportation to/from hospitals, average length of stay data, and average daily income derived from Household Income and Expenditure Survey. In total, this led to a FJ$800.00 per incident cost for accessing health services. Severity for the life plus educational guarantee insurance products used the cost of higher education derived from focus group discussions of FJ$800.00 per year. This information was used to calculate a pure premium. A 25% safety loading was added in addition to 15% administration and 10% surplus to calculate total premium prices. These prices were then adjusted with interested underwriters to ensure their relevance.