Pacific Financial Inclusion Programme
focus notes

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PARTNERS FOR PROGRESS – STEPS FOR SUCCESSFUL MICROINSURANCE PARTNERSHIPS

People around the world have one thing in common at some point in their lives, they will confront a personal or professional crisis with financial implications. These unexpected shocks often force low income households to sell, relinquish or abandon physical assets. If they fail to rebuild these assets to a sufficient level before the next shock, the likely result is slipping (back) into poverty[1]. Microinsurance is an effective tool to protect the assets of low income households and helps in mitigating their losses.

For Microinsurance to be sustainable, insurers need to build a sufficiently diverse pool of clients (or "risk pool") and sell enough policies fairly quickly that can be adequate serviced. This is where partnerships can be useful. A partnership between an insurer, which designs and issues the policies, and an intermediary, which promotes, sells policies, collects premiums and potentially reports and services claims, has proven to be the best method for reaching scale. The insurance company gains by leveraging on the partners' client base and the partner gains by providing another service to their clients as well as collecting fees for their efforts. The purpose of this focus note is to inform the insurance companies in Fiji about the steps involved in microinsurance distribution, namely:

1. identification of captive client groups;
2. matching client groups with respective intermediaries based on a set of characteristics;
3. evaluating the strengths and weaknesses of the partner with reference to the distribution life cycle; and
4. understanding the partner motivations and financial requirements

Step 1 - Identification of Captive Client Groups

Fiji has a very poor penetration of traditional insurance products, with only 88,085 life insurance policies in force that cover only 9% of the population. There is a great need and equally great opportunity for microinsurance products in such undeveloped and uninsured markets evident from the market segmentation in Fiji. The client segments in Fiji can be broken down to four types – (i) those who have insurance which account to 88,085 clients, (ii) those who can be reached without significant re-design of products and re-thinking of distribution channels account to 197,186 prospective clients, (iii) those who can be reached provided there is an enabling environment for new products specifically designed and delivered through innovative channels account for 335,215 prospective clients and (iv) finally those who require social protection but are very poor so only the government can provide an adequate safety net to this group of 513,784 people. Therefore microinsurance can be offered on a sustainable and commercial basis to 532,401 individuals who have the capacity to pay premiums on a regular basis.

The microinsurance penetration in Fiji is low because a major impediment to insurers in Fiji is the high cost of screening individuals for policies of small amounts. One solution is to sell smaller policies on a group basis. The group policy pools the risks of different individuals thereby minimizing the risks of adverse selection and helps to reduce the cost of underwriting. In

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order for insurers to sell policies on a group basis, they need to identify captive client groups and match the group's points of interactions with different associations, service providers or vendors. These associations, service providers and vendors are potential partners for delivering microinsurance products.

In Fiji, insurers can reach out to different types of client groups that include –

1. Faith based organizations like TISI Sangam, Muslim League and The Methodist church,
2. Customers of utility companies like FEA (electricity), Water Authority,
3. Association of workers – Fiji Hotel and Tourism Board, Fiji Teachers Union, Fiji Employers Association
4. Mobile money subscribers of Vodafone and Digicel
5. Customers of consumer goods at retail stores like MH or Courts and customers of home loan companies like HFC

Table 1 – How to Identify Captive Client Groups – Characteristics and Examples

Characteristics	Client Groups	International Examples
Regular transactions and longer relationship **(life-span)** with the intermediary	Members of Association (employers, farmers associations, tea estate workers, teachers union, co-operatives, taxi drivers association)	ICICI Prudential – Assam Tea Estate Workers Union (India)
Monetary exchange with the intermediary	Buyers of consumer goods on credit (grocery / retail stores / consumer goods stores)	Pep Stores – Hollard Insurance (South Africa), Elektra - Seguros Azteca (Mexico), Casas Bahia (Brazil), Colseguros – Carrefour (Colombia)
Heterogeneity of the group – so risk pool is diverse	Customers of Utility Companies (Customers of Utility Companies (Telecom, Water, Gas, Electricity, Post Office)	Codensa – Mapfre Seguros (Colombia), Mapfre – Vivo (Brazil), Alico Chartis – Gas Natural (Colombia)
Stronger bonding among group members – leads to **higher bandwagon effect which increases sale**	Members of faith based organizations – church or other religious membership groups	Zion Christian Church Group –Sanlam Insurance Company (South Africa)

Step 2 - Matching Client Groups with Partners based on Partner's Characteristics

As shown in table 1, an insurer needs to understand the characteristics of the insurable group and match these with a potential partner, which interacts with the group on a regular basis. Microfinance institutions took the lead on microinsurance in the 1990s and have often been considered a "natural" partner of insurers. However there is a growing collection of international examples which highlight that companies needn't rely on MFIs to sell microinsurance products. Every market has people receiving salaries, subscribing to a newspaper, participating with religious organizations, using mobile phones or purchasing regularly from a retail store. Insurers can start by recognizing which entities interact with which client groups on a regular basis.

It is important to look out for the following characteristics of the partner[3] .

Scalable group	Client groups of these channel partners increase in scale over a period of time as the customer express their loyalty in appreciation of superior service and as a result the reputation of the partner grows and customers begin to experience a 'pride' factor in shopping and interacting with the partner
High client retention and **brand loyalty**	Positive discovery of insurance requires a trusted partner with a good brand image
Multiple points of interaction	Client groups can interact with the partner and seek the same standardized information at different points, it helps in relationship building, ease and convenience of service
Transaction platform	Existing monetary transaction could be bundled with insurance premium collection. For example, adding the insurance premium to an electricity bill, the church's membership fees, or deduction from your salary in case of teacher's union

Step 3 - Evaluate Strengths and Weaknesses of the Partner based on Distribution Life Cycles

When choosing a specific partner it is useful to evaluate the strengths and weaknesses of the partner with reference to the distribution life cycle of microinsurance, i.e. all the roles beyond sale of policies. This includes: collection of premiums; reporting of claims; processing and producing client information as shown in table 2 below. This analysis will allow the insurer to prepare for three important risks -- (i) operational risks such as fraud, moral hazard (ii) business risks such as competition offering higher incentives resulting in lower uptake of the products, (iii) reputational risk such as poor claims reporting and so delayed servicing resulting in negative word of mouth publicity.

Table 2 – Distribution Life Cycle – Capacity of Different Partners to Perform[4]

Channel	Sales promotion - Time available at POS	Ability to collect Premium	Claims	Technology to process information
Pharmacist	Limited incentives for interaction – it takes place largely with regular clients	Only from regular customers	Directed to the insurance company	**Physical records – prescriptions of clients, some might have MIS records**
Utility Companies	Scope for active interaction and promotion by out-bound call center, mail, and personal sales force	Combined with pre-paid / post-paid payments	Claimant can call the utility co's or insurance co's toll free line, and claims paid to bank or telecom account	**Yes, sophisticated systems**
Consumer Goods **Stores**	Active interaction and soliciting is possible as personal rapport maintained by sales floor staff, unless regulation is restrictive and the cost of giving advice is high	Combined with credit or over the counter cash payments	Claims can be facilitated in-store	**Yes, good MIS, client information & credit systems**
Association of **workers (e.g.** taro, kava worker unions, **teacher or police taxi driver)**	**Regular interaction between members and management of the association so there is scope for advice and active promotion**	**Combined with monthly membership fees or salary deduction**	**Yes – but personal form of communication**	**Physical record of all workers available, some might have MIS records**

Step 4 -- Understanding the Partner Motivations and Financial Requirements

Insurers must also consider the motivations and interests of different prospective partners, financial and other motivations. The intermediary must see value in entering into a partnership with the insurance company for the partnership to sustain. In order to attract the intermediaries' interest, it is important to:

- Align with the vision, mission and goal of the distribution channel partner;
- Understand the partners incentive structures, including those for employees directly managing microinsurance;
- Expand the intermediary's income by offering performance based fees
- Mitigate risk for the intermediary, for example credit life

All partners, regardless of other motivations will require some compensation to offset the costs of offering and servicing the product. Partners can be compensated in several ways --

- Commission per policy sold
- Performance based fee (based on no. of policies sold per quarter)
- Commission plus partial Administration Costs covered (form of bonus if sales exceeds X %)
- Commission plus material costs (sharing IT costs)

Conclusion

There are 532,401 potential uninsured individuals in Fiji. It is common knowledge that we all spend a lot of effort to build assets and so protecting these assets including human life at a marginal cost would have good outreach provided the information is channeled through the right partner. A demand study carried out in October 2011 by PFIP in partnership with ADB in Fiji highlighted the need for client education but such education and information sharing is best channeled through a trusted medium and it is important to leverage the medium to sell the product . In addition, the study also highlighted that simple products are favored than comprehensive products with a basket of benefits. Thus it would make sense to begin with simple products, such as a funeral policy, or a coverage that compensates for loss of wages or transportation during illness. To sum it up in the famous words of Sid Caesar --

"The guy who invented the first wheel was an idiot; the guy who invented the other three, he was a genius" -- So insurance companies should be inventors of all the four wheels in Fiji, by remembering these four simple steps

- **First wheel** -- Find the insurable client groups
- **Second wheel** -- Match the client groups with the prospective partner's characteristics
- **Third wheel** – Ensure the partner has the adequate capacity to perform the different processes in the distribution life cycle
- **Fourth wheel** – Ensure the partner is adequately motivated and is given adequate incentives to promote the product

PFIP can facilitate and provide technical assistance on partnership formation. Please contact Barry Maher at barry.maher@uncdf.org or Ramanathan.subramanian@uncdf.org should you wish to discuss further.

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[2] McCaffrey, Mike. Microinsurance: Areas of Focus in Fiji, Suva, 15 July 2010

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[5] Ramanathan Subramanian. World Bank Microinsurance Benchmark Database, May 2010 http://siteresources.worldbank.org/INTMICINS/Resources/Database_Analysis_Charts_Colombia.pdf

[6] Alejandra Diaz, Fasecolda, World Bank Microinsurance Benchmark Data Collection, September 2009

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