The road to launching ‘Bundled Micro Insurance’ in Fiji – Key Lessons

What is bundled insurance?

Bundled insurance refers to a combination of insurance covers within one insurance policy. This type of product gives a consumer added convenience, needs less administration and potentially delivers cost savings.

In Fiji’s case, the bundled product offered term life, funeral expenses, property and personal accident cover at a standard, affordable premium.

The Fijian Context

Compared to other regions around the world, the Pacific has one of the lowest insurance penetration rates. A series of national surveys conducted by the Pacific Financial Inclusion Programme (PFIP) on financial services revealed that insurance coverage for individuals in the Pacific ranges from 7% (Solomon Islands) to 12% (Fiji) of the adult population. Those who reported having insurance coverage were largely urban dwellers in formal employment.

Most respondents reported finding insurance products too expensive and felt that they did not need it. They also reported not understanding how insurance works and not knowing where to find insurance. The survey further demonstrated the lack of appropriate and affordable microinsurance products that can cater to low-income customers, people who are the least insured and the most vulnerable to economic shocks.

An Industry approach to Microinsurance

As insurance sector stakeholders in various countries strive to successfully develop microinsurance markets, an insurance scheme supplied by the industry at large – rather than by an individual insurer – appears attractive. Industry-backed insurance solutions can avoid or reduce common and potentially costly aspects, such as excessive competition, high administration costs and duplicated marketing efforts. Joint, industry-backed solutions may simplify and reinforce marketing messages and bring more insurer capital to bear, greatly expanding the volumes of policies issued to cover lives and businesses. This “group” approach can help to ensure that a strong customer base can be established that makes the product commercially viable, scalable and replicable across Pacific markets.

Until 2017, this concept had not been tested in the Pacific. Over a two-year period, the PFIP worked with the National Financial Inclusion Taskforce (NFIT) Inclusive Insurance Working Group (IIWG) to create an industry-backed, bundled insurance project in Fiji. The bundled product was an opportunity to design a business model that used new partners to harness different specialist abilities, technologies and capabilities that ultimately delivered a compelling customer proposition for Fijians. We can draw some important conclusions from the project’s two-year journey from product idea to product launch.
Key Lessons

Lesson 1: Build Collaboration and Consensus

Having the right institutional framework that encourages collaboration between the insurance supervisor, the insurance providers and others is critical. In the Fiji case, this framework was an initiative of the NFIT which in turn created the IIWG in 2015. The IIWG’s mission is to facilitate sustainable and affordable insurance products to underserved groups and to create a regulatory balance between the insurer and the insured. IIWG members include insurance companies, the PFIP, various government ministries and the Reserve Bank of Fiji (RBF) as the Insurance Supervisor. Via the IIWG, a consortium of insurance companies agreed to develop a low-cost, bundled microinsurance product to both open a new business line and to support the financial inclusion goals of the NFIT. At the outset of the project, all stakeholders involved expressed their commitment to the project and their intent to provide the necessary support to drive the project forward. Whilst during the journey competing viewpoints emerged, this institutional framework provided the “think space” for the bundled product idea to evolve and mature.

Lesson 2: Ensure ongoing Regulatory and Supervisory support

Ongoing support from the industry regulatory and supervisory body is critical. This facilitates a healthy environment which does not stifle innovation and facilitates space for otherwise market competitors to share ideas and collaborate. In Fiji, a market driven solution was used, where the insurance companies voluntarily supplied products, rather than being compelled to do so by the Insurance Supervisor. An ongoing dialogue between the insurance supervisor and the insurer consortium facilitated this type of approach. At various stages when different insurance products and business models were being discussed, questions arose as to what was legally allowed. For example, questions arose relating to the permitted actions of a TPA to act on behalf of various insurers, and the obligations of the different parties involved. The insurance industry supervisor maintained a flexible approach throughout the discussions and agreed to issue microinsurance regulations or to allow dispensations from regulatory obligations if needed, to support the project.

Lesson 3: Manage Stakeholder Expectations on Deliverables

It is important to assess project design, management and key deliverables together with how quickly and realistically a project can be implemented within a set timeframe. These need to be developed and agreed amongst stakeholders with regular ongoing discussions and deliberations taking place to ensure that all parties are aware of progress against deliverables, together with changes that may arise.

For microinsurance projects, considering other cases where products have been launched but had been withdrawn later, was helpful to the IIWG. The cases showed that the reasons for withdrawal included a failure to reach sufficient sales volume, unsustainable losses being incurred, and flawed business model designs being used. Cumbersome administration procedures, distribution channel management issues and sub optimal quality of customer service delivery were also causes of failure. It was critical that all parties concerned in the project were aware of these examples.

It was also important that the capacity and capabilities of the insurance companies involved to effect change were ascertained at the onset of the project. In the Fiji case, reaching agreement on a common microinsurance policy wording that was acceptable to all insurers proved to be elusive. Each company had its own standard policy wordings, but none of these met the requirements for microinsurance and a new common policy wording agreeable to all insurers was not produced.

The Fiji consortium was not able to agree on common business policies and procedures, despite many attempts to do so. Insurers had different risk appetites, as well as underwriting and claims management philosophies. Some insurers could revise their ways of working and adopt leaner business processes, but some insurers could not. Areas of debate included the need for proposals and declarations at an individual level rather than at a group level, where one party (e.g. an employer) signs these documents, and the acceptability or otherwise of electronic signatures. The underlying uncertainty on the potential of microinsurance to substantially augment their businesses and bottom line result, was also a factor that impeded adopting some new approaches.
Lesson 4: Dare to Innovate - Try new thinking and innovative solutions

As microinsurance is different to conventional insurance in many ways, traditional insurer approaches and company business models are unsuitable. Having the vision, ability and the willingness to try certain innovations is essential where microinsurance is involved. Insurance companies, like other organisations in the financial services sector, have set business procedures, organisational structures, legacy systems and unique corporate cultures. These can act as a catalyst for change or conversely may inhibit change. Having the right people working on a project who have a passion to bring change and improvements, especially if such people are at a senior level in an organisation, can greatly affect the pace of the project and its outcome.

Whichever business model and product design is decided upon, following project management best practices will greatly improve the chances that a project will be delivered to specification, on time and within budget. Discipline in following an agreed project plan will reap benefits. In the Fiji case, some insurers in the consortium did not adequately prioritise the project and this impacted planned delivery dates, plus, certain tasks were not always delegated to the appropriate technical and financial staff to work on.

Lesson 5: Be aware of Externalities

Externalities can have a dramatic effect on a product development project. Externalities can arise from many sources such as changes in the political landscape, regulatory impacts, social developments, economic conditions, technological innovations, new sources of competition, and natural hazards, among others. Externalities can help to drive a project forward or do the opposite.

In February of 2016, category 5 Tropical Cyclone Winston hit Fiji. There were 44 fatalities and damage to, or destruction of 40,000 homes. The impact of the cyclone was a significant blow to the country’s economic infrastructure. According to AON Plc’s 2016 Annual Global Climate and Catastrophe Report, the total economic cost was FJD $2.98 billion (USD $1.4 billion), which amounted to more than one-third of Fiji’s Gross Domestic Product. Following the cyclone, local insurers suspended many projects, including all new product development initiatives, and focused on managing the thousands of claims that stemmed from that tragic event.

Lesson 6: Focus on the Business Case: Design for profitability, viability and scalability

As a default position, the business case should be designed to be without the need for government financial support or other types incentives. However, at the outset of the Fiji microinsurance project, the insurance consortium decided to factor in a request for certain governmental incentives. These included a tax rebate for employers on insurance premiums, a time limited rebate to insurers on underwriting losses, and exemptions from Fringe Benefit Tax, Value Added Tax, Stamp Duty and the Fire Levy. The IIWG did not receive approval from the Fijian Government for this request.
Lesson 7: Assess business model and product variants

Getting to a viable business model and a suitable insurance product is a reiterative process and several models and product prototypes were tested. The table below illustrates the different options that emerged over time as insurers adjusted their thinking and strategies in the light of new knowledge and feedback from government, consumer research exercises and the testing of product prototypes. Over the period that the project ran, four prototype insurance products were designed. Table 1 illustrates at a high level the various degrees of complexity that can arise in a project where multiple insurers are involved and where a spectrum of insurance coverage exists. The project started out with seven insurers with five sections of cover and ended with one insurer with four sections of cover.

Table 1. Insurance product types and ease of launch

<table>
<thead>
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<th>Product variants</th>
<th>Need for insurer co-ordination and trade-offs</th>
<th>Speed of implementation</th>
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<tbody>
<tr>
<td></td>
<td>High</td>
<td>Faster</td>
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<tr>
<td></td>
<td>Low</td>
<td>Slower</td>
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<td>Insurance classes</td>
<td>Life and General</td>
<td>Life and General</td>
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<tr>
<td>Coverage</td>
<td>Group Life Funeral Expenses Personal Accident</td>
<td>Group Life Funeral Expenses Personal Accident</td>
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<td>Group Life Funeral Expenses</td>
<td>Group Life Funeral Expenses</td>
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<td></td>
<td>Personal Accident House Buildings Cash</td>
<td>Accident House Buildings</td>
</tr>
<tr>
<td>Number of Insurer</td>
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<td>Five</td>
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<td></td>
<td>Five</td>
<td>Three</td>
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<tr>
<td>Existing product</td>
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<tr>
<td></td>
<td>No</td>
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<td>Government incentives required</td>
<td>Yes</td>
<td>Yes</td>
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<td></td>
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Should the scenario arise, it is important for a consortium to be prepared to support a sole insurer to deliver the product if this seems to be a sensible way forward. In June 2017, after consultation and with agreement from the rest of the consortium, FijiCare Insurance Limited (FijiCare), decided to provide the product alone and to handle all aspects of customer enrollment, customer servicing and claims management. This was a turning point in the project. The final specification of the bundled microinsurance product is shown below:

Annual combined cover limit of FJD $10,000 per insured person and annual premium FJD $52, Cover:

- Term Life – FJD $3,000 (~USD 1,500), Maximum age of 65.
- Funeral Expenses – FJD $1,000 (~USD 500), Maximum age of 65.
- Personal Accident – Maximum FJD $3,000 (~USD 1,500), Maximum age 65.
- Fire on main dwelling – Maximum FJD $3,000 (~USD 1,500)

Peter McPherson, Managing Director of FijiCare observed that, “All insurers know that it’s a challenge to make a justifiable business case for microinsurance. Building on the valuable work that the consortium members had done and the consumer insights that had emerged, we realised that a “business as usual” approach would not work and so we set about redesigning things to give us what we needed. We have upgraded the company’s policy administration, financial and claims management systems. We have brought in more efficient business processes at all stages of the business cycle and are determined to make things easier for customers. For example, the claims management and settlement process has been streamlined. Certain documents to justify a claim have been dispensed with and now images of damage sent in to the insurer by mobile phone or computer are used as part of the evidence of a claim.”

Mr. McPherson added, “At the end of the day we must think of what this microinsurance can do for people in their daily lives. Although the level of benefits and sums insured may be modest, we must remember that any microinsurance can and will help people to cope in times of need. In many cases this microinsurance will be the first time that people have been covered by insurance. So, to some extent it’s a learning curve for them and it helps to show what a difference insurance can make when losses happen. This whole project has shown the tensions and the tradeoffs that exist for insurance companies and the hard decisions that need to be made. This microinsurance product really has great potential and we will be working hard to roll it out to employers, unions, associations, co-operatives and government ministries across Fiji, and hopefully beyond Fiji.”