



Making financial markets work for the poor



Case Study: Hollard Insurance and Pep

Part of the FinMark Trust series of case studies on innovative microinsurance models and products in South Africa

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1. Introduction

This case study forms part of a series of case studies completed for the FinMark Trust by the Centre for Financial Regulation and Inclusion (Cenfri), as part of a larger study titled “Update on innovative microinsurance models and products in South Africa”. The purpose of the case studies is to review the success and development of various microinsurance models that have been launched during the last few years in South Africa. This allows for the identification of success factors and obstacles and challenges to the distribution innovation process, contributing to a better understanding of how to make insurance products work for the low-income market.

The main focus of the case studies is on distribution, an area that has seen particular innovation. Nevertheless by reviewing both the distribution model and the products provided through a particular channel, product innovation is also considered.

Methodology. The project draws on information gathered during a number of interviews with innovative microinsurance providers, as well as new organisations entering into the insurance distribution space such as retailers or retail payment providers. The information from interviews is supplemented by publicly available information on these providers and their distribution channels, such as newspaper reports, websites and annual reports. Since this report builds on a series of earlier FinMark Trust research reports, the report also draws on earlier information and insights from this research.

Availability of data. Given that the case studies will all be placed in the public domain, data that provide a true reflection of the success and value of different models and products, for example the number of policies sold, claims ratios, policy persistence, total premiums generated, profit, etc, are often not disclosed by the providers on the basis of its being commercially sensitive. Where companies were willing to share this data, it is included in the case studies. Given that we obtained different types and levels of information for the different case studies, the length of case studies also vary.

Lessons from Pep-Hollard. This case study highlights the Pep/Hollard experience in the microinsurance market. It illustrates the following key themes and issues:

- the partnership’s continuous focus on product and small distribution improvements to ensure value to clients and a successful venture; and
- the positive value that a distribution partner with a vested interest in the success of the insurance offering adds to the distribution model.

2. About the institution

Largest privately owned insurer in South Africa. Hollard, a holding company established in 1980, is South Africa’s largest independent, privately owned insurance provider. After steady growth for 28 years, Hollard collected \$1.05 billion¹ (R8.9 billion) in gross premiums from its 6 million policy holders in 2008 (Hollard, 2008). It holds both a long and short-term

¹ Rand values converted into US dollar equivalent using the 6 month average, interbank exchange rate, where USD1 = R8.58 for the period March 2009 to end of August 2009.

insurance license and has operations in Australia, Pakistan, India, UK, Botswana, Namibia, Ghana, China and Mozambique (Hollard, 2009).

Retail partnerships handled by specific divisions. Hollard, consisting of Hollard Life Assurance (a long-term insurance company) and Hollard Insurance (a short-term insurance company), has a fairly complex organisational structure consisting of eight core divisions². Of these divisions, Hollard Retailer Business Solution (HRBS) and Hollard Insurance Partnership (HIP) are responsible for delivering insurance solutions in partnership with retailer groups (Hollard, 2009).

Low-income market an important focus. Hollard has a highly diversified business model to serve its ever growing target market (Ross, 2009). It has made significant strides in the low-income market, with monthly gross premiums of approximately \$708,900 (R6 million) generated from the low-income retail market in 2008 (Cikes, 2009). It is continually forming new partnerships in order to distribute its ever expanding insurance offering.

3. About the partnership

Pep a low-income clothing store. Pep Stores, a wholly-owned subsidiary of Pepkor, was founded in 1965 and has grown to a network of 1,159 stores throughout South Africa. Pep describes itself as a cash-based, low-margin, high-volume clothing retail store that has expanded its product offering to include cell phones, airtime, prepaid electricity, insurance and, to a lesser extent, home appliances. Pep is known for its innovative business model, which constantly seeks to bring additional value to its LSM³ 2 - 6 target market (Pep, 2009).

Partnership facilitated through broker. Through a joint venture arrangement, Pep has partnered with Hollard to provide funeral insurance to their customer. The venture was facilitated by an insurance broker, Glenrand MIB, and was officially launched on 26 March 2006. Pep receives approximately 10% commission on the sales of five funeral products underwritten by Hollard Life Assurance Company Limited. There is also an underwriting profit sharing agreement through the joint venture⁴ (Hollard, 2008).

Benefits brought to partnership by each party. Pep offers a low-cost distribution network for funeral insurance as its existing infrastructure can be used to facilitate distribution and capture payment of insurance premiums. Hollard offers underwriting and product design expertise, as well as administrative support through its relationship with The Best Funeral Society, an insurance administrator.

² Hollard Select Brokers (HSB), Hollard Insurance Partners (HIP), Hollard Commercial & General (HCG), Hollard Retailer Business Solutions (HRBS), Hollard Group Risk, Hollard Risk Capital (HRC), Hollard Bank and Motor Dealer (BMD), Hollard Direct Solutions (HDS).

³ The South African Advertising Research Foundation's (SAARF) Living Standard Measurement (LSM) divides the population into ten LSM groups with 1 being the lowest and 10 the highest. Grouping is based on 29 factors including degree of urbanization, ownership of cars and of major appliances.

⁴ The level of profit sharing has not been disclosed.

4. About the products and channel

Evolution of product offering and take-up

The insurance products offered through the Pep-Hollard partnership have gone through at least three phases of tailoring to arrive at an offering that better suits the needs of Pep clients, as well as the risk exposure in the market:

Phase 1 – product launch in March 2006. Pep initially launched three insurance products: the *Comprehensive Family Funeral*, *Family Accident*, and *Cell Phone*. All of these products were underwritten by Hollard and targeted at households earning less than \$354.45 (R3,000) a month. The *Comprehensive Family Funeral* policy covered the whole family (up to five children). At a monthly premium of \$2.36 (R19.99), adults received \$590.75 (R5,000) in cover and children \$295.38 (R2,500). The *Family Accident* insurance policy likewise covered the whole family at a monthly premium of \$2.36 (R19.99). In return, adults received \$2,363 (R20,000) in cover and children \$1,181.50 (R10,000). The cell phone insurance offered cover of up to \$118.15 (R1,000) a month at a premium of \$2.36 (R19.99) per month. Rather than providing a monetary pay-out, the cover allowed for the cell phone to be repaired or replaced up to the maximum value, with the condition that the phone should have been purchased at Pep (FinMark Trust, 2006).

After the launch of the Zimele product standards⁵ in February 2007, the Pep/Hollard products obtained Zimele accreditation without any real changes to the product being required.

Phase 2: Cell phone and accidental death products dropped, new funeral products launched in August 2007. The cell phone and accidental insurance products were discontinued in August 2007 due to lower than expected take-up. Pep then launched a new funeral product range labelled Silver and Gold *Comprehensive Family Funeral* policies. The Silver package offered \$590.75 (R5,000) cover at \$2.36 (R20) premium per month while the Gold package offered \$1,181.50 (R10,000) cover at \$4.14 (R35) per month (CFSI, 2008). The new funeral policy offering was well received by Pep customers and coincided with increased take-up (see Figure 1 overleaf).

Phase 3: Whole new range of funeral products launched in November 2008. Pep currently offers five funeral products, launched in November 2008: the *Family* (two options for levels of cover), *Senior* (likewise two options) and *Family Supporter* policies (see description and table in the next sub-section). When it launched its new products, the previous products were withdrawn from the market. Similar to its other product offerings, all of these products are underwritten by Hollard Life Assurance. The target market is households earning between \$354.45 (R3,000) and \$590.75 (R5,000) per month.

Rationale for product tailoring. According to Pep and Hollard management, the revised product offerings can be viewed as an attempt by Pep and Hollard to better meet the needs of Pep clients, as well as an actuarial tailoring process after monitoring the initial risk experience in the market (Edwards, 2009). The latter was prompted by unexplained and higher than expected mortality rates (Cikes, 2009). Given Pep's awareness of their clients'

⁵ Zimele accreditation, a joint initiative by the long term insurance industry, is intended to inform clients that the life insurance product meets the Financial Sector Charter's minimum product requirements of fair charges, easy access and decent terms.

price sensitivity, it was decided to launch new product offerings rather than adjust premiums (Cikes, 2009).

Product take-up. Of the approximately 215,000 policies active in 2009, 40,000 derives from the original product offering launched in 2006 and 72,000 from the policies launched at the end of August 2007. The remaining 103,000 policies stem from the latest product offering launched in November 2008 (Cikes, 2009). Hollard and Pep are currently in the process of increased marketing efforts in order to counter flattening sales growth. The trend in product take-up from April 2006 until mid-2008 was as follows:

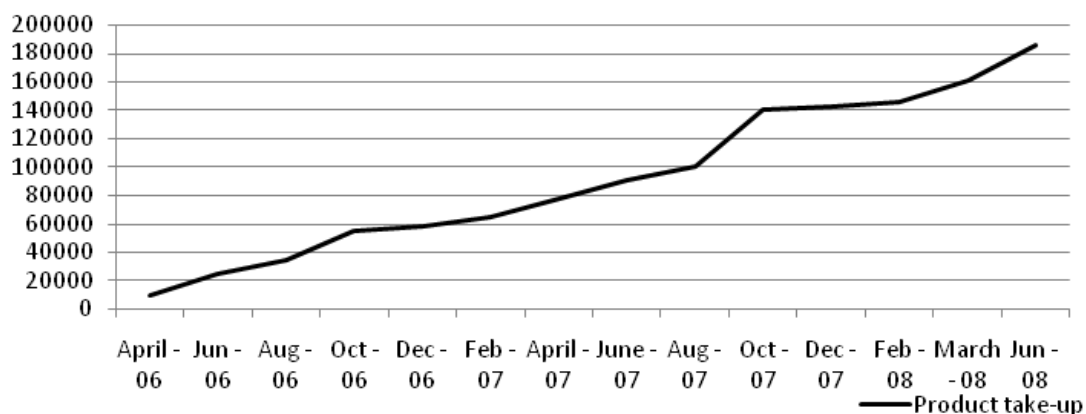


Figure 1: Pep-Hollard product take-up (April 06 – June 08)

Source: Ross, 2009

Current product offering:

As discussed, Pep-Hollard currently offers five funeral policy options, grouped under Family Funeral, Senior Funeral and Family Supporter. The level of cover for each is as follows:

- The **Family Funeral** insurance product offers two options: cover of \$886.13 (R7,500) at a monthly premium of \$4.72 (R39.99), or cover of \$1476.88 (R12,500) at a monthly premium of \$7.09 (R59.99). Each option covers up to 7 family members; this includes a maximum of one partner (under the age of 65) and five children (under the ages of 21). Children between the ages of 6 and 13, and 1 and 5, are covered at 50% and 25% of the principle member's cover respectively. Partners as well as children between the ages of 14 and 21 are covered at 100% of the principle member's cover.
- Likewise, two **Senior Funeral** policy options are available for individuals (no family cover) between the ages of 65 and 74. It offers cover of either \$886.13 (R7,500), at a monthly premium of \$5.91 (R49.99), or f \$1476.88 (R12,500) at a monthly premium of \$8.27 (R69.99). In each case there is only a single life covered. This policy option was introduced after Pep clients signalled the need to buy funeral cover for their elderly parents.
- Lastly, Pep offers a **Family Supporter** – single member - policy at \$2.36 (R19.99) a month. In the event of the insured's death, the cover of \$708.90 (R6,000) is paid out

over a period of 12 months in equal instalments of \$59.01 (R500) per month. The introduction of this policy can be viewed as an attempt to better meet the needs of remaining family members in the period immediately following the death of the insured. Typically, a family will buy a policy only for the breadwinner.

The features of the various options can be summarised as follows:

Policy	Premium per month	Funeral benefits	Additional accidental death benefit	Age	Who's covered?	Cover – to premium ratio ⁶
Family R12 500	\$7.09 (R59.99)	\$1,476.88 (R12,500) \$1,476.88 (R12,500) \$738.44 (R6,250) \$369.22 (R3,125) \$177.23 (R1,500)	\$1,476.88 (R12,500) - - - -	18 – 64 14 - 21 6 - 13 1 - 5 stillborn	Policyholder + Partner + 5 Children	1217
Family R7500	\$4.72 (R39.99)	\$886.13 (R7,500) \$886.13 (R7,500) \$443.06 (R3,750) \$221.53 (R1,875) \$118.15 (R1,000)	\$886.13 (R7,500) - - - -	18 – 64 14 - 21 6 - 13 1 - 5 stillborn	Policyholder + Partner + 5 Children	1100
Senior R 12 500	\$8.27 (R69.99)	\$1,476.88 (R12,500)	\$1,476.88 (R12,500)	65 – 74	Policyholder	357
Senior R 7 500	\$5.91 (R49.99)	\$886.13 (R7,500)	\$886.13 (R7,500)	65 – 74	Policyholder	300
Family Supporter R500 paid out over 12 months	\$2.36 (R19.99)	\$708.90 (R6,000)	\$708.90 (R6,000)	18 – 64	Policyholder	632

Table 1: Pep insurance offering summary

Source: Pep, 2009b

Sales process. Insurance policies are packaged in the form of starter packs, similar to the packaging used for cell phone starter packs. These starter packs can be found in-store alongside other Pep products. Potential policy holders would pick the policy that suits their needs off the shelf and pay for the starter pack (at an amount equivalent to the first month's premium) at one of the till points. While the client pays for the policy the cashier captures basic client details such as name, telephone number and identity number. This information is passed on to the Best Funeral Society-administered call centre (see below for more information on The Best Funeral Society's role in the Pep/Hollard product range). The call centre then contacts the client within 72 hours to capture the remainder of the required information such as names, birth dates and identity numbers of the family members covered under the insurance policy, and the nominated beneficiaries.

The insurance starter pack contains the complete policy document with all the information a policy holder requires. A cool-off period of 30 days provides the client with the opportunity to cancel the policy and claim the first premium back if he/she is unhappy with the purchase.

⁶ Cover to premium ratio is calculated by taking the maximum payout or claim covered under the policy (for the whole family), divided by the monthly premium.

Waiting period and exclusions. Pep's Family Funeral policies have a compulsory waiting period of 6 months (9 months for Senior Funeral policies) for death from natural causes. However, death from accidental causes is covered during the waiting period, and will be paid out at 200% of the funeral benefit cover. Other than age, Pep's insurance range currently does not have any admission exclusions.

Policy administration. Hollard's funeral policies are administered by The Best Funeral Society. The Best Funeral Society is an insurance administrator. It is a subsidiary company of Hollard that is 90% owned by Hollard. The Best Funeral Society is responsible for managing policy activations, monthly payment reminders and payout procedures of all Pep funeral products. It also provides and manages the call centre facility on behalf of the joint venture.

Premium collection. Clients receive a policy card with their purchase and are required to pay their monthly premiums in cash at a Pep store. Debit orders, at an additional charge of \$0.35 (R3) per month, and upfront premium payments to a maximum of six months are also allowed. Policy holders are reminded via SMS to pay their monthly premiums at any Pep store. The SMS contains the policy number and can, in the absence of the policy card, be displayed when paying the monthly cash premium. A 30-day grace period for late payment is provided. Policy statements can be obtained via text message by sending an SMS with your policy number to Hollard.

Claims process. Hollard Life Assurance will pay all valid claims into a nominated bank account (including Mzansi⁷ and Postbank accounts). The claims procedure is facilitated by The Best Funeral Society on an inbound call centre basis. Claimants are required to fax and post all relevant documents to The Best Funeral Society within 180 days of the death of the insured person.

Compliance with South African intermediary regulation. In compliance with the Financial Advisory and Intermediary Service (FAIS) Act (2002), Pep is a registered representative of Hollard Life. Hollard, in turn is a Financial Services Provider (FSP) registered with the Financial Services Board (FSB), the insurance supervisory authority. Pep staff members have not been trained or registered as insurance intermediaries and are therefore not allowed to disclose product information to the client and can only fulfil certain clerical functions in the sales process such as accepting the premium at till point and capturing certain client information.

New policy holders are contacted by registered representatives from The Best Funeral Society (a registered FSP), to capture the client's details and insure that policy holders are fully informed of the policy details and their consumer recourse options. Any queries about policies also have to be directed to the call centre helpline number, where FAIS-accredited agents will offer assistance to the current or prospective client.

5. Success factors

The Pep-Hollard model represents one of the most successful examples of microinsurance distribution innovation in South Africa. A number of factors have contributed to the success:

⁷ Mzansi bank accounts, an initiative by South Africa's four largest retail banks and the Post Office, are custom designed for low-income earners, with reduced administrative and operation fees. Other (non price) barriers have also been reduced through relaxed documentation requirements.

Low distribution costs due to available infrastructure. Pep's existing infrastructure allows it to collect premiums in cash at any Pep store. The model is characterised by low distribution costs, as the only real cost (apart from commission paid to Pep for product sales) associated with the roll-out of the insurance product, is the one-time addition of the five products to Pep's inventory of products. Due to the fact that most premiums are paid in cash, the onus of payment is placed on the client by expecting him/her to pay the premium in store.

Costs kept low by provision of limited information and no advice. The model is structured in such a manner that verbal product disclosure is only provided upon request. That is, the client has to contact the call centre to clarify confusing aspects of the policy. This reduces the cost associated to training and hiring of FAIS accredited agents in-store.

Commitment to success by Pep. Interestingly, Pep rather than Hollard initiated the partnership when it sent a terms of reference to insurance broker, Glenrand MIB, to source an insurer to underwrite insurance products for Pep clientele. Pep shares in the profits

Box 1. Pep/Hollard

Established: March 2006

Purchasing Options: Five policy options (all funeral cover):

- Two family policies
- Two Senior policies
- One Family Supporter policy

Policy Activation:

Step One: buy starter pack of chosen product (purchase price equal to the first month's premium).

Step Two: The cashier captures the client's name, telephone number, and identification number.

Step Three: Within 72 hours, Hollard's policy administrator, The Best Funeral Society, contacts the customer directly for additional information.

Success Factors:

- *Low distribution costs through Pep's network of stores.*
- *Costs kept low by provision of limited information and no advice.*
- *Commitment to success by retailer, Pep.*
- *Hollard's experience with unexplored markets contributed to the venture's success.* Through several iterations, the partnership was able to settle on insurance products that worked for both them and their customers.



Photo credit: Joel Carlman

generated from the joint venture and labels the insurance offering under its own branding. Consequently, Pep carries both a financial and brand image liability if the insurance model should fail or be discontinued. Given that Pep prides itself on providing quality products at a very low cost to its low-income target market, it has a strong interest in ensuring that clients are offered value for money products that meet their needs.

Experienced underwriters equipped to handle unexplored markets and unfamiliar mortality rates. Hollard has extensive experience in product packaging, pricing and design. It has been exposed to various markets and has the ability to quickly adjust to new markets. The various adjustments the product line has gone through illustrate Hollard's ability to respond to product experience that does not correspond to initial policy pricing and design. This has resulted in a product offering that is not only financially sound, but offers clients value and speaks to the needs of the underwriter as well as the distribution partner.

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