



Making financial markets work for the poor



# Case Study: Shoprite

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

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**Date:** 16 July 2010

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## Table of Contents

1. Introduction.....	1
2. About the institution .....	1
3. About the products and channel.....	2
Bibliography.....	10

## 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.

This case study highlights the Shoprite experience in the microinsurance market. It illustrates how a retailer can fulfil a role similar to that of an insurance broker by selling the same category of insurance product, funeral insurance, of more than one insurance company.

## 2. About the institution

Shoprite Holdings (Ltd), the holding company of the retail group that includes well-known South African supermarket chains Shoprite and Checkers, started operations in 1979. Today, the Shoprite group has 1,068 corporate and 275 franchise stores in 16 African<sup>1</sup> countries and India. In South Africa, the company’s store network is as follows:

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<sup>1</sup> African countries include: Angola, Botswana, Ghana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe and the Democratic Republic of the Congo.

Trade name	Number of stores
Shoprite stores	309
Checkers	128
Checkers Hyper	24
U-Save	124
OK Furniture	175
OK Express	13
House & Home	44
Hungry Lion	103

**Table 1: Shoprite Holdings' South African operations**

Source: Shoprite Holdings, 2009.

Insurance is only sold through the 309 Shoprite stores. Shoprite's business model is to provide customers with the lowest possible prices and to add additional value to the customers' shopping experience through value added services such as the Money Market Counter, discussed in greater detail below (Shoprite, 2009).

### 3. About the products and channel

*Shoprite and insurance.* Shoprite's insurance offering started as early as 1999 with the introduction of an HTG Life insurance product (Genesis, 2006). Subsequently, due to various reasons, Shoprite has added and withdrawn several insurance products from its range. According to management, the addition of insurance to Shoprite's product offering has been an attempt at differentiating Shoprite from its competitors by increasing the product offering to their clients (Smit, 2009). While Shoprite displays insurance products in-store just before the cashier isles, most premiums (depending on product design) have to be paid at a separate counter, the Money Market counter, in the store.

*Money Market Counters.* The Money Market counter was introduced in 1998. The main objective of the Money Market counter is to enable customers to settle more of their daily transactions in one place (Shoprite Holdings, 2008). This initiative started out by giving clients the option of buying cell phone airtime and pre-paid electricity at a designated counter in the store. The original product offering has now been expanded to include money transfer products, postage stamps, water accounts, municipal rates and taxes, theatre and events bookings, telephone accounts, lottery tickets, bus tickets, flight bookings and insurance. The overall success of the Money Market Counter initiative has been noteworthy. Shoprite estimates that more than 50% of its clients make use of the counter while in the store (Shoprite Holdings, 2008).

*Target market.* Insurance policies can be purchased at any Shoprite store and monthly payments can be made at any Shoprite or Checkers Money Market Counter. The Shoprite supermarket has been chosen by Shoprite Holdings as the most appropriate of its stores to distribute low-income insurance, as it has positioned itself to serve the LSM<sup>2</sup> 4 – 7 market segment. While insurance products can only be purchased in Shoprite stores, clients are also able to pay their premiums at Checkers, a supermarket targeting a higher-income market segment than Shoprite.

<sup>2</sup> 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.

### Box 1. Shoprite's Money Market Counter

- Established in 1998
- Helps customers settle payments in one place
- Money transfers, stamps, water bills, municipal rates and taxes, theatre tickets, telephone accounts, lottery, bus tickets, flight bookings, and insurance

**Insurance Options:** Three funeral insurance products offered:

- Pay-when-you-can (Old Mutual)
- Cover2Go Cashback funeral policy (Metropolitan Life)
- Doves Family Funeral Policy (Union Life, Ltd.)



Photo credit: Joel Carlman

*Products from different insurance companies sold in-store.* Shoprite stores offer insurance products from several insurance companies. According to management, this stems from a belief that the customer should have a choice between insurance providers and not be limited to one insurance company (Smit, 2009).

The product offering consists of three funeral insurance products, underwritten by different insurers:

- *Pay-when-you-can* underwritten by Old Mutual, a life insurer;
- *Cashback Funeral Policy* by Cover2go, a division of Metropolitan Life<sup>3</sup>; and
- *Doves Family Funeral Policy* underwritten by Union Life Ltd

It is also possible for the clients of Santam<sup>4</sup>, a short-term insurance company, to pay the premiums of their household structure and content insurance products at Money Market Counters.

### Compliance with intermediary regulation

Shoprite Checkers (Pty) Limited, in compliance with the Financial Advisory and Intermediary Service (FAIS) Act<sup>5</sup>, is registered as a Financial Service Provider (FSP) with the Financial Services Board (FSB), the insurance supervisory authority. The Act requires that all intermediaries of financial services products be registered as an FSP or representative of a registered FSP.

<sup>3</sup> More information on Metropolitan Cover2go and their different products and distribution channels can be found in a separate case study, part of this series, that focuses on Metropolitan Cover2go.

<sup>4</sup> This payment channel, for Santam clients, was discontinued shortly before publishing this case study.

<sup>5</sup> The act that provides the legal framework for the regulation of insurance intermediaries.

All the above insurance products are sold by Shoprite on a non-advice, tick-of-the-box basis. According to Shoprite and the insurance companies selling their products through Shoprite, the Shoprite cashiers perform only a clerical or administrative function. They are not allowed to offer any verbal information on the insurance product to the client as they are not registered intermediaries. The client can obtain product information from the policy documents of the different insurance products. If any further information or clarification is required, the client should contact a call centre where a registered representative of the insurance company can provide advice and/or information on the product.

Below, we provide a more detailed overview of each of the three products.

### Pay-when-you-can by Old Mutual

*Pay-when-you-can*, an innovative flexible insurance top-up package, was launched at Shoprite Money Market counters during November 2007. The product allows individuals to buy insurance on a top-up basis to a maximum cover amount of \$2,363<sup>6</sup> (R20,000). The product is sold in the form of a starter pack (similar packaging to the way in which cell phone sim cards are sold), and contains two insurance policies: *Family Funeral Cover* and *Family Accidental Cover*.

#### Box 2. Pay-when-you-can Funeral Cover by Old Mutual

##### Key features:

- Targeted at LSM 1-4 and seasonal and temporarily-employed workers
- Funeral cover is sold on a top-up basis, and is good for 12 months (with a six-month waiting period for coverage of natural death).
- Top-up payments are made at the Money Market Counter.

##### Purchasing and activation:

*Step One:* The customer buys an insurance starter pack (R9.95)

*Step Two:* The customer registers the starter pack at the Money Market Counter, providing their national identity document and the policy card from the starter pack.

*Step Three:* A beneficiary must be registered either via fax or by visiting an Old Mutual client service centre with a certified copy of the beneficiary's national identity document or birth certificate.

##### Challenges:

- Complicated product design
- The period and amount of cover is unclear
- Shoprite and Old Mutual have different target markets



Photo Credit: Joel Carlman

<sup>6</sup> 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.

*Target market.* According to Old Mutual management, the product is targeted at the LSM<sup>7</sup> 1 – 4 market, with monthly household incomes of \$118.15 (R1,000) to \$354.45 (R3,000). This is a slightly lower-income market than Shoprite’s defined target market. The product is designed to take into account income flows of seasonal and temporary employed workers (Mupanbirei, 2009).

*Product features.* The funeral benefits provide different levels of cover at different premiums. The following table sets out the different policy options

	Premium payable every six months <sup>8</sup>	Funeral Benefits	Age	Cover/premium ratio <sup>9</sup>
Old Mutual Pay-when-you-can	\$1.65 (R13.95) \$0.28 (R2.35) pm	Policyholder & Spouse - \$59.08 (R500) Child - \$29.54 (R250) Stillborn - \$14.77 (R125)	18 – 64 0 – 20 <0	1559
	\$3.30 (R27.95) \$0.55 (R4.66) pm	Policyholder & Spouse - \$118.15 (R1000) Child - \$59.08 (R500) Stillborn - \$29.54 (R250)	18 – 64 0 – 20 <0	1556
	\$8.26 (R69.95) \$1.38 (R11.66) pm	Policyholder & Spouse - \$295.38 (R2500) Child - \$295.38 (R1250) Stillborn - \$73.84 (R625)	18 – 64 0 – 20 <0	1555
	\$15,35 (R129.95) \$2.56 (R21.66) pm	Policyholder & Spouse - \$590.10 (R5000) Child - \$295.38 (R2500) Stillborn - \$295.38 (R1250)	18 – 64 0 – 20 <0	1212

**Table 1: Pay-when-you-can product information**

Source: Pay-when-you-can registration pack, 2009

There are three steps to obtaining *Pay-when-you-can* insurance cover:

- *Buying an insurance starter pack.* The insurance starter pack, which contains an information booklet on the insurance policy, can be bought for \$1.17 (R9.95) off-the-shelf (normally near the till points) in any Shoprite store.
- *Activating the accidental cover component of policy.* After purchase of the starter pack, the policy is only activated once the client registers at the Money Market counter in the store by presenting his or her national identity document and the client card which was obtained with the insurance starter pack. This entitles the policyholder to 60 days of accidental death cover to the value of \$590.10 (R5,000). The client has the option to increase the accidental cover in increments of \$590.10 (R5,000) at a cost of \$0.82 (R6.95) each, up to a maximum amount of \$2363 (R20,000) for each 60 day period.
- *Activating the funeral cover component.* Funeral cover is sold on a top-up basis using the policy number obtained from the starter pack. After the client has registered for

<sup>7</sup> 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 major appliances.

<sup>8</sup> Though policies are annual, a new waiting period applies every year, so to ensure uninterrupted death cover, premiums have to be paid every six months.

<sup>9</sup> Cover is considered to be the maximum amount the policy would pay out given the accidental death of a whole family of 2 parents, 3 children and a stillborn baby.

the accidental death component of the policy, he or she is able to buy top-up funeral cover – the starter pack does not contain any funeral cover. A single premium provides cover for 12 months. Each top-up purchase acts as a separate policy – each with a 6 month waiting period for death by natural causes - and will increase the length of time the individual is insured for and, during overlapping periods, the total cover the individual will have.

It is, however, important to note that given that the product only provides cover for a specified 12 month term and a 6 month waiting period applies, the client will effectively only have 6 months coverage for death due to natural causes. According to management, Old Mutual has designed the funeral component of the policy in such a way that the policyholder needs to top-up the funeral product twice a year – every six months - to enjoy continuous cover for death from natural causes (Mupambirei, 2009). Policy top-up payments are made at Money Market Counters in Shoprite or Checkers stores.

Clients can register the details of their beneficiaries in two ways:

- By sending a fax with their policy number and stating that they intend to add a beneficiary. The fax must have a certified copy of the beneficiary's national identity document or birth certificate attached; or
- By visiting any of the Old Mutual client service centres nationwide with a certified copy of the beneficiary's national identity document or birth certificate.

*No exclusions.* No medical examination or exclusions apply, other than the compulsory waiting period for claims for death from natural causes.

*Distribution of roles.* Shoprite acts as a distributor, premium collector and client registration vehicle for Old Mutual's *Pay-when-you-can* policies and receives 10% commission on funeral and/or accidental cover top-up premiums paid at its Money Market counter (Mupambirei, 2009). The registration of beneficiaries, claims and queries is administered by Old Mutual.

*Claims process.* Claims must be directed to the Old Mutual Communication Centre and/or any Old Mutual Client Services branch. Claims are paid out into a bank account nominated by the beneficiary.

*Take-up.* The product design and features potentially add value to the client in several ways. The flexible payment periods provide a solution for seasonal and temporarily employed persons. Cover is provided for the whole family, including the spouse (unlike the *Cover2Go Cashback Funeral Policy* to be described below). Premiums only have to be made twice a year. The product also provides good value: the cover to premium ratio (as set out in Table 1) is the highest for all the funeral products sold through Shoprite. Yet the product has experienced relatively low take-up<sup>10</sup> since its launch in November 2007. This could be due to various factors, including:

- *Complicated product design.* The policy is relatively complicated, with the starter pack essentially containing two different policy and top-up options

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<sup>10</sup> No statistics on the number of Pay-when-you-can policies have been released. However, from discussions with management, take-up appears to be relatively low.

- *Period and amount of cover is unclear.* The overlapping nature of policies could leave potential customers confused about the level and duration of cover.
- *Shoprite and Old Mutual target market not fully aligned.* Shoprite’s target market of LSM 4 – 7 is not aligned to that of Old Mutual’s *Pay-when-you-can* LSM 1 – 4 target market.

### Cashback Funeral Policy by Metropolitan Cover2go

Metropolitan Cover2Go launched its *Cashback Funeral Policy*, distributed through Shoprite stores, in November 2008. It is currently Cover2go’s largest distribution channel (Pead, 2009). It is unique in that it offers policyholders the opportunity to receive a proportion of premiums paid back at the end of the policy’s five year term in the event that the principle policyholder does not die during this period. However, the “cashback” component is dependent on the policy not lapsing due to missed premiums at any stage during the five year term. The policyholder is given a grace period of 30 days to catch up with any missed premiums. The policy does not have a limit on the amount of biological, step, legally-adopted or common-law children that can be added to the policy. However, the only adult that is covered is the policyholder and the policyholder’s spouse would therefore not be covered. The product design has been specifically structured to address the realities of single-parent families (Fastmoving, 2008). The premiums and benefits can be summarised as follows:

	Premium per month	Funeral Benefits	Age	Cover/ premium ratio <sup>11</sup>
Cashback Funeral Policy	\$5.91 (R49.99)	Main member - \$1181.50 (R10,000) Child dependent – \$236.30 (R2,000)	18 – 49*	320.06
	\$8.86 (R74.99)	Main member - \$1181.50 (R10,000) Child dependent – \$236.30 (R2,000)	50 – 64*	213.36

**Table 2: Cashback Funeral Policy information**

Source: Cashback Funeral policy document, 2009

\*The the age of the policyholder at the date of the policy purchase

A prospective policyholder needs to take two steps to obtain insurance cover:

- *Buying the insurance starter pack.* The *Cashback Funeral Policy* is sold in the form of a starter pack. It is available inside the retail store at a price of \$1.06 (R8.99) and can be bought along with other products at the cashier. The starter pack includes a discount voucher from the Doves funeral network<sup>12</sup>, but no funeral cover is included in the price of the starter pack.
- *Activating funeral cover.* After buying the starter pack, individuals have to take their national identity documents, the policy card contained in the starter pack and the first

<sup>11</sup> This product contains a savings component and thus cover/premium ratio might be misleading in judging the overall value of the policy

<sup>12</sup> Doves funeral group is a funeral undertaker network with 170 branches across the country. The voucher provides a discount on funerals of more than \$413.53 (R3,500) in value. It provides a R500 discount benefit on Doves funeral/cremations costs between R3500 – R6999; a R1000 discount on doves funeral/cremation costs of more than R7000; and a R2000 discount on Doves funeral/cremation costs of more than R7000 for senior citizens over the age of 60 years.

month's premium to the Money Market Counter<sup>13</sup> in any Shoprite store in order to activate the policy. This can be done either immediately in-store, or at a later stage

Once the policy has been activated, it is the responsibility of the policyholder to phone the call centre to nominate the beneficiary. Premiums are payable at the Money Market counter, in cash only. Premiums can be paid up to 3 months in advance and policyholders receive a monthly SMS to remind them of the amount payable and the date that the premium is due.

*6 month waiting period.* Once the first premium is paid, a standard 6 month waiting period applies. During this period individuals are covered against death from accidental causes. If the individual dies of natural causes in the first six months, all premiums will be paid back in full. No medical examination or exclusions (other than age) apply.

*Claims process.* The beneficiary of the insured deceased can claim by contacting the Cover2go call centre. The call centre consultant will talk the individual through the process of making the claim. Claims can only be paid out into a bank account nominated by the beneficiary.

*Distribution of roles between insurer and retailer.* Shoprite acts as a distributor, premium collector and client registration vehicle for Metropolitan Cover2go's *Cashback Funeral Policy*. Shoprite buys the insurance starter packs from Cover2go and distributes them at the retail price of \$1.06 (R8.99). Shoprite receives a transaction fee of \$0.77 (R6.50) for every premium payment. This corresponds to 13% of the premium for the policy options for 18 to 49 year olds, and 8.67% on the policy options for 50 – 64 year olds.

*Take-up.* Take-up levels have been modest. The success of the product is likely to be affected by a number of positive and negative factors:

- *Only one principle member covered.* The only adult covered by the policy is the policyholder; this is a challenge if the policy owner is married or has a life partner, as that person would not be covered. To obtain cover for the spouse or partner would require the purchase of another policy and, consequently, the parents would pay for double cover for children.
- *Forced savings component.* The savings component increases the cost and, consequently, lowers the cover to premium ratio and value-for-money of the funeral component. However, the "cashback" nature of the policy is attractive to policyholders in that it adds a defined realisable future value.
- *Addition of a Dove funeral discount voucher.* Another potential drawing card is the fact that the funeral discount voucher is not tied to the activation of the Cashback policy and can be used by anyone that purchased the starter pack.

## **Doves funeral policy**

The *Doves Family Funeral Policy*, Shoprite's longest standing insurance offering launched in 1999, is underwritten by Union Life. Union Life, formerly known as HTG Life, is 50% owned

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<sup>13</sup> Specially dedicated counter in-side every Shoprite store where individuals can pay utility bills, conduct money transfers, buy prepaid electricity and cellular airtime, pay and register insurance and various other related services.

by Metropolitan Holdings Limited and 50% owned by the Doves Group (Union Life, 2009). The Doves Funeral Group was established in 1959 and specifically targets the low-income market through its more than 170 funeral parlour branches nationwide. The policy offers funeral cover with the addition of a Shoprite gift voucher of \$59.08 (R500) or \$118.15 (R1,000) (depending on level of cover) in the event that the policyholder or beneficiary of the policyholder decides to use the services of a Doves funeral parlour.

*Product not sold in “starter pack”.* The insurance product, unlike the other two Shoprite products, is not sold in a “starter pack” format. The policy is available from Money Market Counters, where the client will be provided with a policy card and a copy of the policy document on the payment of the first month’s premium. The policy will cover the policyholder, policyholder’s spouse and biological and legally adopted children at a premium of R25 per month:

	Monthly premium	Funeral benefits	Age	Cover/premium ratio
Doves funeral policy	\$2.95 (R25)	\$590.75 (R5,000)	15 – 68	750
		\$590.75 (R5,000)	14 – 25	
		\$295.38 (R2,500)	7 - 13	
		\$147.69 (R1,250)	0 – 6	

**Table 3: Doves funeral policy information**

*Source:* Union Life policy document

Monthly premiums are calculated on the oldest insured life and can be paid at any Shoprite or Checkers Money Market counters. As with all insurance offerings sold through Shoprite stores, no medical examination or exclusion (other than age) applies.

*Distribution of roles.* Shoprite serves as a distributor and policy collection platform for Union Life’s insurance offering. Policy administration and claims are handled by Union life directly. Claims can be paid in one of two ways. Firstly, through direct payment made into a bank account nominated by the beneficiary. Secondly, the beneficiary could obtain a funeral to the value of the insured amount from any of the Doves funeral parlours.

*Product being revised.* According to management, Union life is in the process of launching a revised product offering through Shoprite stores.

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