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SCALE: THINKING BIG

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EXECUTIVE SUMMARY

Why scale? Achieving scale is a significant success factor for microinsurance schemes, as low premiums with high costs require substantial volumes to make an initiative sustainable. However to achieve scale is difficult, given the nature of insurance as a product and the intermediation and product design challenges posed to reach the target market.

In an effort to identify lessons that support practitioners the ILO's Microinsurance Innovation Facility commissioned the Centre for Financial Inclusion and Regulation (Cenfri) to review microinsurance initiatives that have achieved scale¹ to identify and understand their trends and drivers in scale. The study analysed 95 Initiatives that achieved scale and evaluated 8 case studies² in detail to understand what drives scale³.

What trends are observed in schemes that have achieved scale? The majority of schemes (72 per cent) offered at least one voluntary product with only 28 per cent of schemes limiting clients to only compulsory products. Sixty-six percent of microinsurance is distributed through some form of third party aggregator (banks, MFIs, pre-existing groups such as labour unions, retailers, MNOs, post offices, credit providers or utility companies). The remaining 34 per cent is distributed through the state. However, many initiatives that distribute their products through multiple channels will have a direct channel, usually through a tied agent or outbound call centre, as opposed to only sales made through a third party aggregator. The largest proportion of microinsurance initiatives to have achieved scale exists in Asia (53 per cent). This is driven largely by India and China, which have the vast majority of state subsidised initiatives and contribute to the number of health insurance schemes that have achieved scale. The unsubsidised schemes, which account for 50 per cent of all schemes, largely sold life products (including credit life and funeral products). Very few agricultural schemes have achieved scale.

What drives scale? Most initiatives that achieved scale in microinsurance did not build up to scale over time. Rather they sought out and maintained access to large target groups either through mandatory sales, partnerships (including access to voluntary groups, branding and product design) as well as agency. These were found to be the main drivers of scale that microinsurance schemes could control. Government subsidy and latent demand also significantly increased uptake as external drivers of scale beyond the control of microinsurance schemes. Technology, management capacity, regulation and infrastructure were found to be significant enablers, not directly driving uptake of the products but critical to support sustainable scale.

What are the stages of scale? Most drivers did not individually result in scale, but built on each other to achieve and grow scale in different stages depending on the target group. Mandatory sales were used to target a compelled group. Partnership strategies were used to target voluntary groups and agency to sell to individuals. Moving from one stage to another generally needed building blocks to be in place that were developed over time.

What can the study teach practitioners about achieving scale in microinsurance? The following key lessons emerged from microinsurance initiatives that have successfully achieved scale:

¹ Scale is measured based on policies issued. Given the disparity across contexts, scale is defined differently for Africa (500,000 policies or lives covered) compared to Asia and Latin America (1 million policies or lives covered).

² To learn more about the eight in depth case studies included in this paper, [click here for Scale: Thinking big - Case studies](#).

³ The eight in depth case studies consisted of AVBOB (South Africa), CLIS/Malayan (Philippines), Casas Bahia/MAPFRE (Brazil), Holland/Edcon (South Africa), Protecta (Peru), Tigo (Ghana) and BISP Waseela (Pakistan) and NAIS (India).

Insurers should align their scale strategy with their target group. Most scale strategies are based on mandatory sales, partnership or agency, targeting compelled groups, voluntary groups and individuals respectively. Aligning the scale strategy with the target group is more efficient and improves take-up.

Partnership is a cornerstone of scale, but incentives should be aligned. Most microinsurance initiatives achieve scale through some form of partnership. The ideal partner is one that offers resources and skills needed to effectively reach the target market, together with a trusted brand that ensures the partner will deliver on its promises to the insurer, as well as to customers. Understanding and aligning partner interests is critical to the long-term success of a partnership.

Mandatory products offer instant scale and can be leveraged to offer other products. Mandatory products, such as credit life, can deliver large numbers of clients instantly. This client base offers the opportunity to learn about the market and, over time, to add further voluntary products to existing and new clients. Credit life has a poor reputation in terms of value. However, this product often represents a customer's first encounter with insurance and may prove a significant launch pad for higher value products.

Government has an important role to play in achieving scale for health and agricultural products. Some 35 per cent of the microinsurance initiatives that achieved scale were supported in some way by the state. Government played a particularly significant role in agriculture and health microinsurance. Many of these schemes would find it difficult to achieve scale without government support, due to the high cost of providing this type of insurance.

Appropriate technology is essential for administration, information and communication at scale. Accurately administering and pricing a large number of policies requires effective technology. Manual systems are more time consuming, prone to error and are costly to implement for large volumes. Appropriate technology becomes even more significant when a variety of products is offered through a number of partners. Uptake and retention of policies is heavily influenced by the client experience. Frequent communication keeps the client informed and improves the tangibility of insurance, which increases the likelihood that policies will be renewed. Setting up systems to handle large volumes of clients from the outset can improve efficiency.

Tailoring products and processes to meet client needs increases uptake and retention. Clients are more likely to purchase and retain policies that offer them value. Designing products with the client in mind results in products which better meet client needs. Client surveys and complaints monitoring can provide useful inputs into the client experience, in order to inform the tailoring process.

Agency is expensive, but offers substantial benefits if distribution networks are leveraged. A number of initiatives have seen substantial increases in sales and retention levels when agents have been employed to sell products. Agents can increase take-up of voluntary products, as they offer access to information, provide the face of the insurer and build trust with clients. Agents are generally offered incentives to sell. Leveraging distribution networks by placing agents in distribution partner premises, or allowing agents to supplement earnings through the sale of other products, can reduce the costs involved.

ABBREVIATIONS AND ACRONYMS

CLIS	Cebuana Lhuillier Insurance Solutions
IAIS	International Association of Insurance Supervisors
IFC	International Finance Corporation
ILO	International Labour Organization
LAPO	Lift Above Poverty Organization
MFI	Microfinance Institution
MNO	Mobile Network Operator
NAIS	National Agricultural Insurance Scheme
NMB	Tanzania's National Microinsurance Bank
PACE	Product Access Cost Experience
PACS	Primary Agricultural Credit Societies
RSBY	Rashtriya Swasthya Bima Yojana
SADTU	South African Democratic Teachers Union
TSP	Technical Service Provider

1 > INTRODUCTION

Microinsurance can play an important role in protecting low-income families and small businesses from poverty or bankruptcy. Insurers are increasingly seeing the opportunities of offering microinsurance to low-income people. However, access to insurance is still limited in many countries, due to the difficulty of establishing viable microinsurance initiatives that cover the target market. A critical component of successful microinsurance initiatives is their ability to achieve scale.

Why scale is important. Low premiums with high fixed and marginal costs, such as those for distribution, administration and claims, result in many microinsurance initiatives struggling to be sustainable. High volumes are required to improve profitability – increased premium revenue allows overheads and fixed costs to be spread over a large number of policies. For private provision of microinsurance, or schemes that are not subsidized by the government, profits over time must be sufficient to compensate investors for the capital invested and risks taken, in order to justify the investment required for the development of the business. Scale has been identified as one of the main drivers of profitability⁴ (Angove and Tande, 2011). Achieving scale quickly is therefore highly significant to the sustainability of a microinsurance initiative.

For public schemes, the initiatives are typically created to serve a social policy objective. Scale becomes important insofar as the greater the scale of the initiative, the more impact it will have to address poverty or improve welfare. If such a scheme fails to reach scale it would be highly inefficient, and an alternative social welfare strategy may be preferable.

Scale also increases the risk pool, which can improve pricing models and reduce the risk of overexposure to a particular risk event. Both these elements are critical to the sustainable provision of microinsurance.

Scale is difficult to achieve. Challenges in intermediation and product design make it difficult for microinsurance initiatives to achieve and sustain scale. Insurance is a credence product.⁵ It is often complex and intangible, relying on the belief that benefits will be received in future for an uncertain risk event in exchange for premium payments. Traditional insurance overcomes this challenge by investing heavily in advice-based models, where agents are used to explain and sell products to consumers. This is problematic in microinsurance as agents are expensive, given the lower premiums. Low-income clients are also less familiar with insurance and therefore require increased interaction. In the absence of agents, other distribution networks are needed to reach clients. These will often involve partnerships with non-insurers, such as microfinance institutions (MFIs), retailers, mobile network operators (MNOs) and similar entities. Partnership brings cost and risk and needs to be carefully managed if it is to be successful. Product design is another aspect that can be difficult to get right for the low-income market, which is often a new target area for many insurers. New technology is often required to serve the lower income market, as it can reduce cost and still provide targeted interaction with consumers. Taking on so many new areas at once is expensive and risky and makes achieving scale a challenge.

What drives scale? Many microinsurance initiatives succeed in achieving scale despite the challenges. These initiatives could hold some useful lessons for other practitioners, as well as their distribution partners and regulators. The International Labour Organization's (ILO) Microinsurance Innovation Facility therefore commissioned the Centre for Financial Inclusion and Regulation (Cenfri) to better understand what drives scale in microinsurance.

Scope of this study. The goal of the study is to identify the primary factors that contribute to achieving scale in microinsurance. The research question addressed is: what are the key factors that enable a microinsurance initiative to

⁴ Scale does not always result in profitability. High loss ratios have also been observed in schemes that have achieved scale.

⁵ A credence product is a type of good or service with qualities that cannot be observed by the consumer after purchase, making it difficult for the consumer to assess its utility or value.

achieve scale? As a secondary question, the paper will evaluate the extent to which these initiatives have success with voluntary and unsubsidized products and how this has impacted the value provided to clients.

A model to advise practitioners on achieving scale. The study seeks to improve the sustainable provision of microinsurance by informing microinsurance practitioners and their partners on how to achieve scale more effectively. Although a regulatory landscape analysis does not form part of the study, policy-makers should benefit by understanding how regulation can support scale in microinsurance, and by considering whether there are critical regulations that prohibit or enable market development.

Methodology. Eight case studies were selected from a database of 166 initiatives that could be identified as having achieved scale. Interviews with the microinsurance suppliers, as well as detailed desktop investigation, informed further research.⁶

Box 1: Defining scale and microinsurance

Defining scale. The selling of large volumes of business would be insufficient to support sustainable microinsurance initiatives if the business were not also retained over time. Scale is therefore defined as “selling and retaining large business volumes”, consistent with definitions used in other ILO microinsurance studies (Angove and Tande, 2011, p. 4).

Scale could be measured on the basis of gross premiums earned, lives covered or policies in force. High gross premiums may not reflect high volumes if individual policies are expensive. Scale is therefore measured on the basis of policies in force, so as to identify microinsurance initiatives that have reached scale. Given the disparity across contexts, scale is defined differently for Africa⁷ (500,000 policies or lives covered), compared with Asia and Latin America (1 million policies or lives covered). Case studies were selected from this pool of initiatives.

Defining microinsurance. In this paper, the International Association of Insurance Supervisors (IAIS) definition of microinsurance applies, i.e. “insurance that is accessed by low-income people, provided by a variety of different entities, but run in accordance with generally accepted insurance practices. Importantly, this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums” (IAIS, 2012, p. 11).

Few insurers use the term “microinsurance” when referring to products that target consumers who meet this definition. Initiatives that targeted the low-income market and were subject to supervision by the insurance regulator were considered to fall within this definition. “Low-income” was not defined for the purpose of this study; instead, the intention of the insurer to target the low-income market was used to identify initiatives falling within this definition.

Structure of the paper. This paper is structured as follows:

- Section 2 provides a discussion on the trends of initiatives that have been identified as having achieved scale.
- Section 3 offers an overview of the eight selected case studies.
- Section 4 describes the factors identified that support scale, including “drivers of scale,” which directly increase uptake, and “enablers of scale,” which support a large client base.
- Section 5 discusses the stages of scale.

⁶ Further information on the methodology used can be found in Appendix A.

⁷ The lower value for scale was used in Africa due to the generally lower levels of urbanization, smaller sized populations and increased expense of doing business, which reduces the size of average insurance initiatives in the region.

- Section 6 considers the value impact on clients in products that have achieved scale.
- Section 7 presents a conclusion.

2 > TRENDS IN INITIATIVES THAT ACHIEVED SCALE

To assist in the selection of case studies, a global database was compiled of microinsurance initiatives that have achieved scale. The database was informed by desktop research and industry input. This section provides some insights into trends in microinsurance initiatives that have achieved scale.

These trends were based on information that was publicly available for the initiatives identified. Detailed uptake figures could not always be confirmed and the database was limited to those initiatives where confirmation was obtained that uptake figures exceeded the volumes relevant to the study. Identifying initiatives that focused on lower income people rather than the broader population was a further challenge. Larger insurers may provide insurance to the low-income market, while not exclusively targeting that market. Where possible, the emphasis has been placed either on insurers who largely serve the lower income market, or on their distribution initiatives that serve this market. Ultimately, 166 initiatives were identified as having achieved scale within these parameters, of which sufficient information was available for the 95 initiatives from desktop research to analyse further.

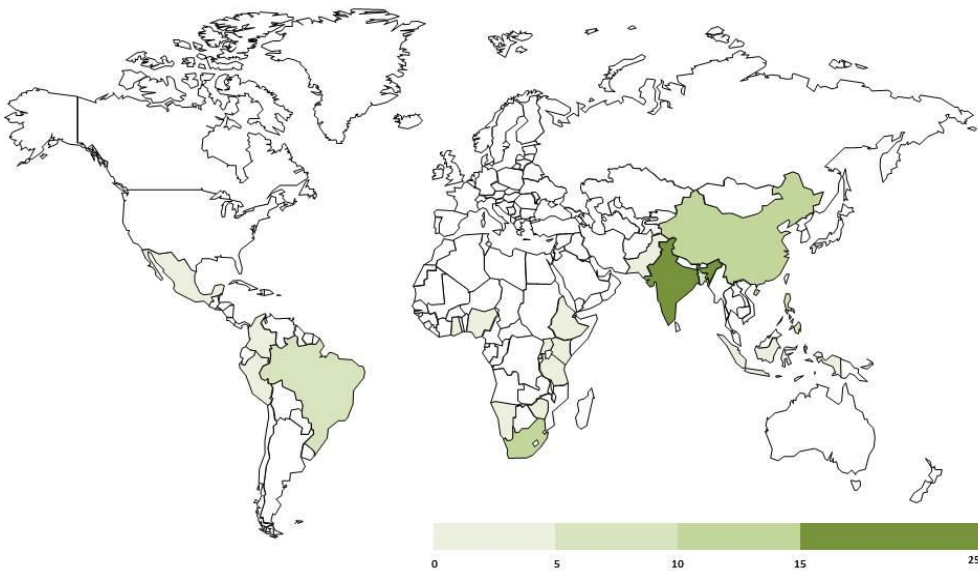
Despite data limitations, some interesting questions could still be answered:

- Where is scale being achieved?
- Which distribution channels are used to achieve scale?
- Which products are achieving scale?
- What is the role of subsidy in achieving scale?
- To what extent are voluntary products included in initiatives that achieve scale?

Where is scale being achieved? shows that the largest proportion of microinsurance initiatives to have achieved scale is in Asia. Africa has more initiatives that have achieved scale than Latin America.⁸ However, the threshold required in defining scale in Africa is lower (500 000 policies/lives covered) than in Asia and Latin America (1 million).

⁸ 15 African initiatives were identified as achieving uptake exceeding 1 million policies /lives covered.

Figure 1: Number of initiatives that have achieved scale by region, for 95 schemes.



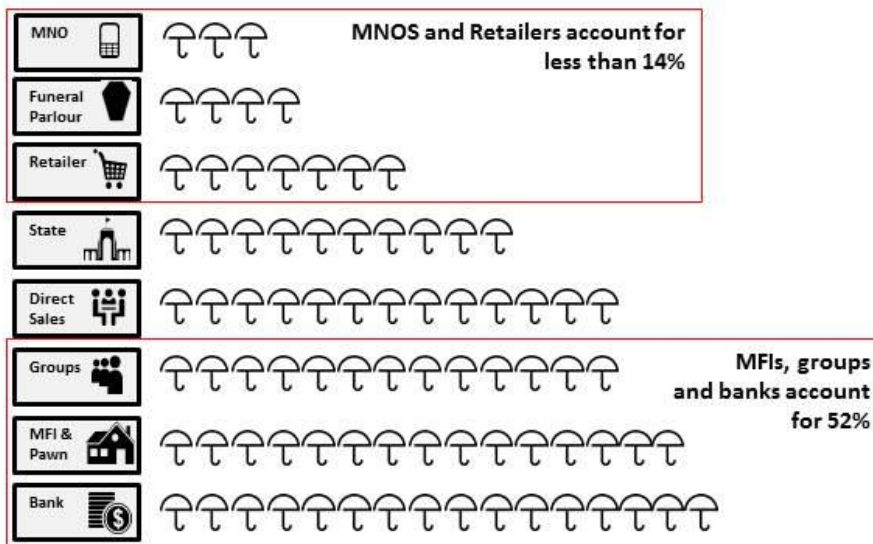
Source: Authors' own

Key factors which could account for the different concentration of initiatives between regions include the variance in population size, income levels of the countries, infrastructure, urbanization and the extent of government imperative (including subsidy)

Which distribution channels are used to achieve scale?

Figure 2⁹ indicates which distribution channels are most commonly used to distribute microinsurance.¹⁰

Figure 2: Initiatives by distribution channel



⁹ "Groups" here include, for example, trade unions and savings cooperatives, while the "State" was included as a distributor, but not as a distribution partner.

¹⁰ Where multiple distribution channels were used, they were included separately below; hence there will be more distribution channels used than initiatives considered.

Prevalent use of third party aggregators, of which credit related channels are particularly significant. The analysis indicates that the vast majority of microinsurance is distributed through some form of third party aggregator (banks, MFIs, pre-existing groups such as labour unions, retailers, MNOs, post offices, credit providers or utility companies). This allows the insurer to more easily and cheaply access an existing group or client database and use the aggregator's infrastructure to distribute the product. This can be particularly important in a country with limited infrastructural development. The established and trusted brand of the aggregator can also often act as a significant advantage to microinsurance distribution.

Though many use a direct sales channel. Many initiatives that distribute their products through multiple channels will have a direct channel, even though this may not be the primary distribution channel. The direct channel entails insurance sales made directly to the potential client by the insurer, usually through a tied agent or outbound call centre, as opposed to sales made through a third party aggregator. This distribution system enables an insurer to form a closer relationship with the client and gain the benefit of ownership of the client database. Bester et al. (2006) comment on this trend: as intermediaries move further up the insurance value chain by obtaining insurance licences, insurers are simultaneously moving down the chain, so as to get closer to the client (Bester, et al., 2006, p. xvi).

Figure 3: Initiatives by product type offered



Source: Authors' own

Which products are achieving scale? Figure 3 above indicates that the product¹¹ most commonly offered by large schemes is life insurance. If credit life and funeral insurance are included under the broad life insurance umbrella, then life insurance constitutes half of the most commonly provided microinsurance products.

A significant number of initiatives also offer health insurance, supporting various demand-side studies that death and health-related expenses are considered the major financial risks by low-income communities (Cenfri, forthcoming).

What is the role of subsidy in achieving scale? Governments and donors can help stimulate the launch and growth of microinsurance initiatives through direct expenditure. The primary form of direct expenditure is through subsidies. Vargas Hill et al (2014) looks at how governments and donors can stimulate the launch and growth of microinsurance initiatives through direct expenditure. Governments and donors can either subsidize the premium, by paying the insurer on behalf of the insured individual, or they can subsidize the insurer directly, to help cover costs and therefore indirectly subsidize and reduce clients' premiums. Premium subsidies can be both full - in which case no payment is required from the insured individual, who is typically automatically enrolled - or partial, where the insured individual is required to contribute a proportion of the premium. Aside from subsidies, the state and donors can also invest directly in distribution or administration roles, such as premium collection,¹² distribution through state entities,¹³ risk assessments,¹⁴ or by providing

¹¹ Please note that the type of products offered could not be determined for all the initiatives considered. Many initiatives also offer multiple types of products and in these cases, as far as could be determined, all product types offered by initiatives to achieve scale were included (scale was not necessarily achieved in all product types offered).

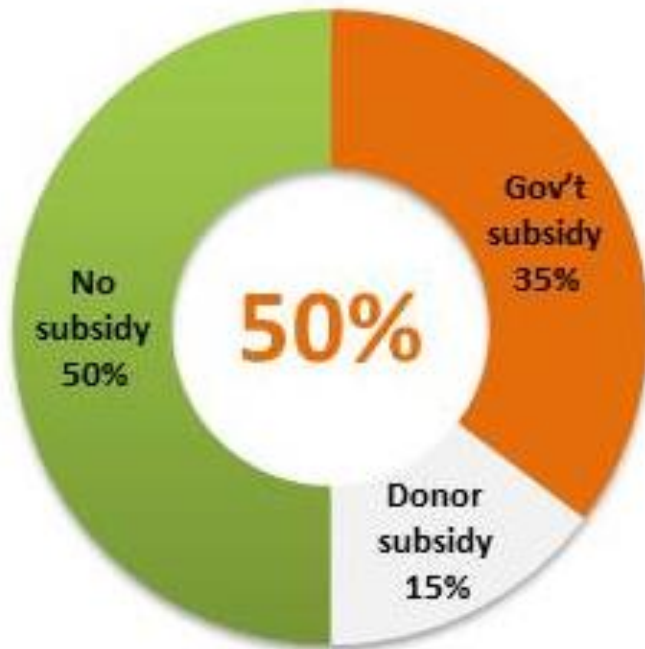
¹² For example, in China the government assists commercial insurers with the provision of insurance to low-income rural households by collecting premiums through village committees.

¹³ For example, agricultural insurance in Brazil is distributed through a state-owned bank.

¹⁴ The state frequently assists in the provision of agricultural insurance by providing risk assessments for commercial insurers, such as in the form of indexation.

technical assistance in product and initiative design and administration, thereby removing or reducing these costs for the insurer.

Figure 4: Proportion of initiatives receiving different types of subsidy¹⁵

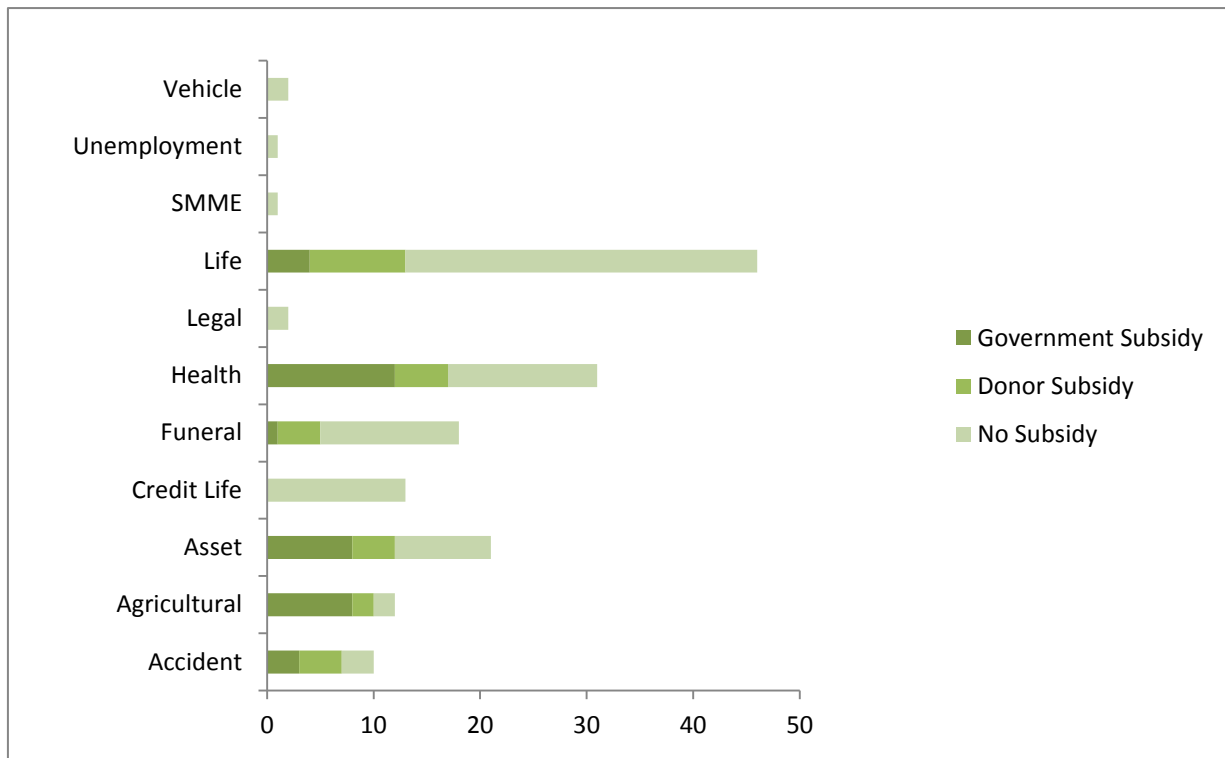


Source: Authors' own

Figure 4 shows that half of the initiatives studied received some form of assistance, such as premium subsidy or technical assistance. Of these, 35 per cent were subsidized by the state and 15 per cent were subsidized by donors, most often in the form of technical assistance. For these different subsidy types, shows the different subsidies by product type. Agricultural, asset and health insurance are the major beneficiaries of government subsidies in absolute and relative terms, while most schemes that receive donor subsidies are life products.

¹⁵ Information on subsidies was available for 92 schemes.

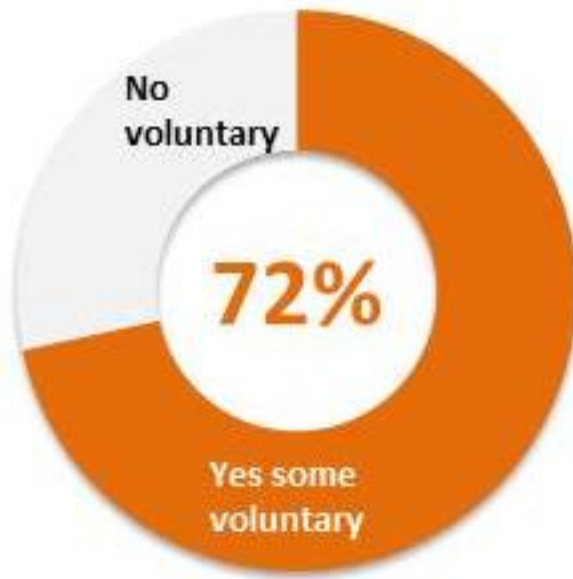
Figure 5: Subsidies by product type



Analysis of the database shows that the vast majority of state subsidized initiatives are found in Asia and that the majority of scale initiatives identified in Asia are subsidized. The majority are located in India and China, especially the latter. Both countries have large populations, with governments committed to providing social protection. The proportion of subsidized initiatives in Africa and Latin America is far lower, with the majority operating on an unsubsidized basis. The proportion of donor subsidized initiatives is similar across the three regions.

To what extent are voluntary products included in initiatives that achieve scale? shows the number of initiatives that offer a voluntary product. It indicates that most of the initiatives to achieve scale offer at least some voluntary products, although 28 per cent offer only mandatory products. Mandatory products can achieve instant scale, and this is an important issue to consider when evaluating drivers of scale. The insured individuals are required to take out insurance cover, thereby removing the need for an expensive sales process. The mandatory nature of the products also helps to reduce administrative costs, lower adverse selection risk, improve claims ratios, reduce the possibility of staff fraud and make the product more affordable, since providers spend less on selling and clients do not have the choice of opting out (Manje, 2007). However, mandatory sales can also decrease value to the consumer and impact the brand of the insurer, if provided in an inappropriate manner.

Figure 6: Proportion of initiatives offering voluntary products



Source: Authors' own

Trends in initiatives that achieve scale. The following trends emerged from the pool of initiatives that have achieved scale:

- Scale initiatives are found most frequently in Asia, with India and China identified as having the largest number of initiatives to have achieved scale. Possible explanations may include the size of the population and the relative development of those markets, particularly with regard to the underlying infrastructure. The prevalent role of subsidy and regulatory requirements also helps to account for the large number of microinsurance initiatives found in India.
- Life and health insurance policies are the most common microinsurance products in the initiatives that achieved scale. This is consistent with the main risks faced by low-income communities.
- The distribution of microinsurance is predominantly conducted through third party aggregators, such as retailers and banks, although a substantial proportion of insurers also distribute products through a direct channel, though they may often use a secondary distribution channel.
- Half of the initiatives are not subsidized, indicating that market-based schemes can reach scale, though the majority of the products are simple products, such as credit life insurance.
- The majority of the scale initiatives offer at least some of their products on a voluntary basis.

3 > OVERVIEW OF THE SELECTED INITIATIVES

From the larger database, eight case studies were selected to provide a range of distribution methods, product types, subsidies, voluntary/mandatory conditions and the regions included in the study, namely Africa, Latin America and Asia. Below is a summary of the details of each case study, highlighting the drivers of scale and the basis for selection of each. For most of the case studies, there was no single driver or feature that allowed the initiative to achieve scale, but a combination of factors interacted over time.

Table 1: Summary of the eight case studies.

Name	Country	Clients/ policies in force	Main distribution mechanism	Product type	Compulsory or voluntary	Subsidy
AVBOB	South Africa	1.3 million	Agents, funeral parlours	Funeral	Voluntary	No subsidy
CLIS	Philippines	3-4 million	Pawnshops	Life, asset	Voluntary	No subsidy
Casas Bahia/Mapfre	Brazil	6 million	Retail partner, agents	Life, asset	Voluntary	No subsidy
Hollard	South Africa	7 million ¹⁶	Retail partner, agents	Life, funeral, various	Voluntary	No subsidy
NAIS	India	25.6 million	Financial intermediaries (banks, etc.)	Agriculture	Compulsory (85%), voluntary (15%)	Government subsidy
Protecta Peru	Peru	1.3 million	Financial and other intermediaries, agents	Life, personal accident, other	Voluntary	No subsidy
Tigo/BIMA	Ghana	550 000	MNO, agents	Life	Voluntary	No subsidy
BISP Waseela	Pakistan	4.2 million	Post	Life	Compulsory	Government subsidy

Initiators of microinsurance schemes differ. In the various case studies, different types of entities acted as initiators of microinsurance schemes or the catalyst for scale. This role was not always played by the insurer. The audience for this study is the provider, or multiple partners/providers of new or existing schemes, where these are insurers, governments or aggregators.

Table 2: Different types of initiators of the eight different case studies.

Case study	Initiator
AVBOB	Insurer
CLIS/Malayan	Administrator/retailer parent company
Casas Bahia/MAPFRE	Insurer/retailer
Hollard/Edcon	Insurer/retailer
NAIS	Government
Protecta Peru	Insurer/aggregator parent company
Tigo/BIMA	MNO
BISP Waseela-e-Sehet	Government

¹⁶ Of which 60-70 per cent are microinsurance policies (Shezi, 2013).

AVBOB, SOUTH AFRICA

Scale achieved over time. AVBOB is a mutual assurance society that has sold voluntary funeral cover and comprehensive funeral services in South Africa since 1918, initially through partnerships with burial societies and later through direct channels. The company achieved scale in the 1970s, with take-up doubling between the years 2000 and 2002. As of 2013, AVBOB had 1.33 million policy-holders, with 3.4 million lives covered.

Agency and cross-selling are primary distribution channels. Insurance is distributed through the company's 150 funeral parlours, as well as through outbound call centres, targeting of existing group schemes, such as burial societies and churches through agents, and through its network of several thousand roaming agents who target individuals. The agent network was introduced to improve sales to lower income clients in the 1990s, resulting in an exponential increase in policy numbers during this period. The mutual invests heavily in advertising and client feedback, which has indicated that agents promote understanding of the products and client trust. This has provided the impetus for continued and expanded investment in the growth of its agent network. Although hiring agents requires investment in training in order to comply with stringent South African financial intermediary regulation, the agents are remunerated on a commission only basis. This reduces the cost to the company and provides an incentive to the agents.

Latent demand as a driver of scale. Another key driver of scale for AVBOB is the cultural demand for funeral insurance in the South African market. Historically, this market was primarily served by informal providers. AVBOB has now become one of the largest formal providers in this space.

Brand strength. AVBOB has built a strong reputation over more than 90 years as a company. It is a trusted funeral service and funeral insurance provider. This brand, combined with latent demand, further encourages client trust and encourages take-up.

Tangibility. The company provides funeral services as well as insurance. Policies thus include tangible benefits, such as funeral transport, coffins and tombstones, a factor that contributes to perceived value on the part of clients and drives take-up.

Understanding the client and product design. AVBOB has a targeted strategy to understand its clients and build its brand. Marketing and client feedback inform product offerings, distribution investment, payment and claims methods.

ALAGANG CEBUANA PLUS, BY CEBUANA LHUILLIER INSURANCE SOLUTIONS (CLIS)/MALAYAN, PHILIPPINES

Partnership and access to large distribution network. In 2004, Cebuana Lhuillier Insurance Solutions (CLIS), an insurance broker, partnered with Malayan,¹⁷ the largest non-life insurer in the Philippines, to offer a personal accident product and later property (fire) insurance. The products were distributed through the 1,500 branches of the Cebuana pawnshop network, owned by the PJ Lhuillier Group, the same parent company as CLIS. Scale was quickly achieved through access to the pervasive pawnshop distribution network. Pawnshops are widely used in the Philippines as a method of finance and they therefore attract regular footfall. The pawnshops were well placed to administer financial services as they had already been providing remittance and bill payment services. CLIS estimates that there are currently 3-4 million policies in force.

¹⁷ The CLIS partnership is one of several Malayan microinsurance initiatives.

Simple, affordable and convenient product with staff incentive to sell. The products were designed¹⁸ to be simple, affordable and convenient to purchase – all factors that have driven take-up. A one-off payment provides four months' worth of cover, which coincides with the timing of pawnshop contracts. Sales are conducted by pawnshop staff, who are given incentives to sell the insurance through provision of an 8 per cent commission fee.

Demonstration effect through quick claims process, extensive client feedback and marketing. CLIS provides demonstration of value to the client through quick claim settlements: 70 per cent of claims are below a 25,000 pesos (US\$ 634) threshold. These claims are all settled by CLIS within 24 hours, with no authorization required from Malayan. This, along with several feedback mechanisms through a dedicated service quality department, enhances value for the client. Extensive consumer education and financial literacy achieved through a donor partnership help to promote the CLIS brand

Philippines' policy and regulatory environment supports microinsurance. An enabling regulatory environment in the Philippines has promoted rapid growth in the country's microinsurance sector. The number of people insured doubled between 2010 and 2012. This was mainly due to strong government imperative in promoting microinsurance (Asian Development Bank, 2013).

CASAS BAHIA/MAPFRE, BRAZIL

Partnership with retailer with large footprint. Casas Bahia is a Brazilian retail franchise with 550 stores specializing in furniture and home appliances for the low-income market. In 2004, MAPFRE Insurance Brazil, with its international experience and expertise, formed a partnership with the retailer to launch voluntary life, unemployment and personal accident insurance to be sold in-store. By relying on a well-established distributor serving the insurer's target market, MAPFRE was able to minimize costs and quickly reach scale. As of 2013, there were approximately 6 million policies in force.

Aligning the incentives of partners. The partnership between the retailer and insurer was structured in such a way that Casas Bahia has, since the start, been involved in the design of products. This minimizes reputational risk for the retailer, whose brand is at the client interface as the distribution channel. The sale of the product is conducted by the Casas Bahia staff, who receive training from MAPFRE, further leveraging the customer relationship of the retailer.

Product designed to be simple, convenient and demonstrate benefit. Only two insurance products are offered. They are designed to be simple and easy to understand. Enrolment and premium payment methods are convenient. The insurance is sold at the point of sale and premium payments are either made upfront or are linked to monthly credit payments for appliances. Value-added services (such as a pharmaceutical discount card offered with the life insurance product) further enhance the perceived tangibility of the product and drive take-up.

HOLLARD/EDCON, SOUTH AFRICA

Multiple partnerships and agency drive take-up. Hollard is the largest privately-owned insurer in South Africa, with nearly 7 million policy-holders.¹⁹ The company has pioneered many new types of insurance products and distribution strategies, mainly through over 100 partnerships with various retail, banking and insurance companies, though Hollard also sells insurance directly. Hollard first achieved scale through its partnership with Edcon, a clothing, footwear and textile retailer, to provide voluntary credit life insurance. Hollard has recently focused on its direct sales channels and is achieving substantial success with agents.

¹⁸ Malayan prioritises simplicity of products so as to reduce reliance on aggregator staff (Angove & Tande, 2011).

¹⁹ Of which 60-70 per cent are considered "low-income."

Appropriate partners and incentives. The Hollard/Edcon partnership first started in 2000, when Edcon approached Hollard, which had a strong brand in the industry, to offer credit life insurance to reduce its bad debt losses. The joint venture leveraged Hollard's experience in product design and administration, while Edcon provides a large client base, convenient premium collection platform and administration of the sales force. Responsibility for decision-making is shared equally between the partners. From the sale of credit life insurance only, the joint venture grew to include simple life, funeral and cell phone insurance. The total number of policies currently in force through this partnership is 5.6 million.

Evolution of distribution strategies. Initially, only outbound call centres were used to quickly and inexpensively sell credit life insurance, drawing from information on Edcon's client base. All retail staff are also now trained to sell insurance in-store, though given the lack of sales incentives and high staff turnover, this is a risky distribution channel. In the past three years, Edcon has started to employ in-store agents who are remunerated on a commission basis. This has produced increases in uptake that are sufficient to justify the cost - 60 per cent of all new policy sales are through the in-store agents, compared with 40 per cent through the outbound call centres.

NATIONAL AGRICULTURAL INSURANCE SCHEME (NAIS), INDIA

Agricultural insurance at scale. The National Agricultural Insurance Service (NAIS) is the largest crop insurance programme in the world and provides insurance to 25.6 million farmers in the event of crop failure as a result of natural calamities, pests and diseases. It was started in its current form in 1999, targeting small-scale and marginal farmers who owned less than 2.5 hectares of land (Mahul & Stutley, 2010, p. 108).²⁰ The insurance is provided both on a compulsory basis for farmers taking out agricultural loans from state banks and on a voluntary basis for non-borrower farmers. The structure of the scheme has changed several times since its launch in 1972.

Compulsion and government imperative main drivers of scale. Scale was initially achieved by the compulsory nature of NAIS coverage for farmers taking out crop loans from state-run financial institutions. The Reserve Bank of India and the National Bank for Agriculture and Development issued guidelines, making it mandatory for financial institutions to insure specified crops. This target sector of the market accounts for two-thirds of insured small-scale farmers taking part in the scheme. However, this group of policy-holders has only received one-third of the value of claims settlements, since the value insured is much lower (Mahul & Stutley, 2010). Premiums are highly subsidized (up to 50 per cent) and claims settlement is made to the financial institution to cover the outstanding debt, based on the "area approach," where payment is made if area yield falls below a certain threshold.

Insurance also provided on a voluntary basis. Non-borrower farmers are also eligible for subsidized cover to insure their crops. Of the total 25.6 million clients, 15 per cent are covered on a voluntary basis. Although this figure is considered low, relative to the target market for the scheme, the voluntary component alone constitutes scale, as defined here.

PROTECTA, PERU

Protecta is a first mover in microinsurance. Protecta was launched in 2007 by the Peruvian not-for-profit company Grupo ACP to provide credit life insurance to a fellow subsidiary, MiBanco. As of 2013, Grupo ACP owned 83.5 per cent of Protecta, with the World Bank's International Finance Corporation (IFC) owning the remaining 16.5 per cent. Protecta was the first Peruvian insurer to target the low-income market. Given the stringent consumer protection legislation operating for registered microinsurance products in Peru, the growth of the initiative has been hampered in this space. Nonetheless, Protecta has reached scale, covering 1.9 million clients.

²⁰ Approximately 80 per cent of India's farmers own less than 2 hectares of land.

Compulsion as an initial driver of scale. Protecta's first partnership involved providing compulsory credit life to a subsidiary of the same parent company, a large MFI, MiBanco. Approximately 800,000 of Protecta's 1.9 million clients are still obtained through this channel.

Evolution of scale through access to groups. Aside from MiBanco, Protecta has subsequently extended microinsurance provision to other groups, including universities, municipalities and a pharmacy franchise. Some of these groups automatically cover all their members (e.g. universities) and some offer voluntary insurance to individuals (e.g. pharmacies). Protecta's main strategy is to continue to target groups and to tailor the product offering to the group, rather than to individual clients. Proprietary software enables it to manage the multiple products effectively for the different groups that it covers.

Tangible value-added service. Protecta attributes part of its success to the Protecta Benefit Card. This offers value to clients through discounts on health-care services and medication. The value-added service improves the tangibility of the insurance product, leading to higher rates of client retention.

TIGO, GHANA

Partnership as key driver of scale. In 2010, Millicom, the parent company of several MNOs in emerging markets, facilitated a partnership with Bima (technical service provider (TSP)), MicroEnsure (broker) and Vanguard Life Insurance²¹ to offer free voluntary loyalty life insurance cover for prepaid mobile customers of its subsidiary Tigo in Ghana. Tigo is a large mobile network operator with 3.8 million clients in Ghana, providing a substantial client database.

Voluntary paid insurance with convenient premium collection. Initially, customers who used more than a certain amount of airtime in a month qualified for free coverage for the policy-holder, plus one additional insured life. The more airtime used, the more cover became available. Clients were notified via text message on a monthly basis as to how much insurance cover they qualified for. They could enrol via a Tigo customer service centre, through insurance agents trained by Bima, through a Tigo call centre or via USSD²². A "freemium" model was introduced in 2011, where customers could double their free coverage by paying a small monthly premium. As of June 2013, Tigo had 550,000 policy-holders and covered 1 million lives. Of these, 400,000 policies were "freemium" clients, who qualified for double the amount of free benefits by paying a small top-up fee. Premiums are conveniently collected by making a deduction from clients' airtime.

Technology improves tangibility. Tigo is an example of using technology at the client interface to increase scale. Text messages are used to interact with clients and market the paid insurance product, communicate the balance of coverage and send reminders for renewal. Since coverage varies from month to month according to airtime use and "freemium" top-up amounts, this interaction helps to keep the insurance clear and relevant in the clients' minds, improving claims services and thus client value.

BISP WASEELA-E-SEHET GROUP LIFE INSURANCE, PAKISTAN

Government imperative important to drive scale. As part of the Pakistan social security programme, known as the Benazir Income Support Programme (BISP), Waseela-e-Sehet group life insurance was launched in 2011, targeting the beneficiaries of BISP who met specific poverty score card requirements. The insurance is provided by the State Life Insurance Company that acts as underwriter and administrator of the policies. Premiums are fully subsidized by the state and benefits are provided to female beneficiaries upon the death of the household breadwinner. The programme was

²¹ The underwriting function has since been taken over by Express Life.

²² A GSM mobile platform.

recently extended to include a health insurance pilot in one region. However, this has not yet achieved scale. The design of the initiative is modelled on the RSBY²³ scheme in India and received technical assistance from donors, including the World Bank and GIZ.

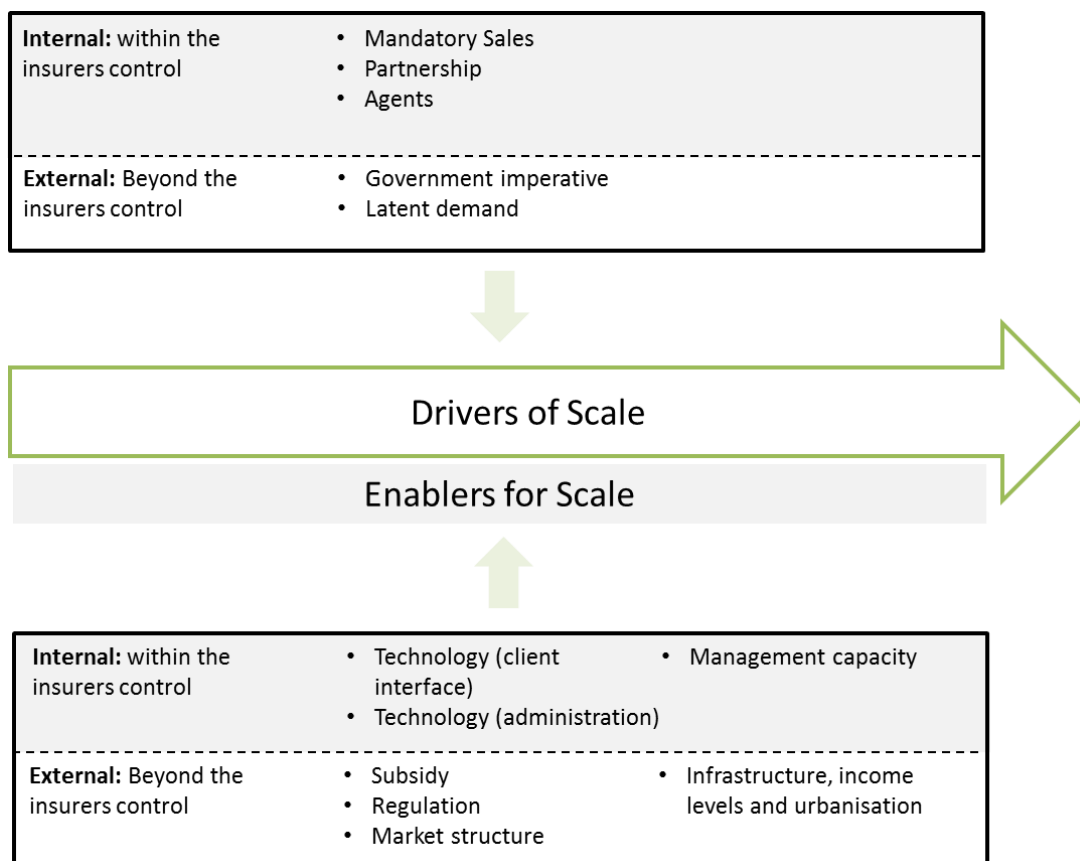
Auto-enrolment and full subsidy are drivers of scale. Clients are automatically enrolled and informed of the cover by post. This has proved challenging, since many policy-holders are unaware that they are covered, a fact that is reflected by a claims ratio that is below 1 per cent. Increasing awareness is a key objective, so as to improve value to the 5.5 million policy-holders covered by 2013.

²³ The RSBY is a public health insurance scheme with over 37 million registered policy-holders. For more information, visit http://www.rsby.gov.in/about_rsby.aspx

4 > FACTORS SUPPORTING SCALE

The case studies investigated vary widely in terms of distribution methods, products sold, environment and political economy. However, distinct trends become clear when factors that have allowed these initiatives to achieve scale are examined. Some factors directly increase uptake, whereas others play a supporting role and are necessary, but are not sufficient to produce scale

Figure 7: Drivers and enablers of scale



- Drivers are features of the initiative or its environment that directly increase take-up of insurance. Internal drivers are those drivers that are within the control of the initiative, while external drivers include market, political and environmental factors that directly impact insurance take-up, but fall outside control of the initiative.
- Enablers do not directly increase uptake, but support sustainable scale. An enabler indirectly drives the uptake of insurance. It is a feature of the initiative or its environment which is necessary for the initiative to achieve scale, but does not in itself stimulate take-up of the insurance by individuals. In common with drivers, enablers can be internal or external to the initiative.

Each of these drivers and enablers is explored below, together with supporting examples, largely drawn from the eight case studies. Section 5 describes the drivers of scale relative to the different stages in which they occur. Section 4 elaborates on enablers of scale.

INTERNAL DRIVERS

Internal drivers of scale are those factors that directly increase take-up and are under the control of the microinsurance initiative. These are critical to effective microinsurance strategies. The internal drivers of scale identified are:

1. Mandatory sales
 - Auto-enrolment
 - Mandatory insurance
2. Partnership
 - Voluntary groups
 - Brand
 - Product and process design
3. Agents

The contribution of each of these factors to driving the take-up of microinsurance is explained below.

Mandatory sales

Mandatory sales can achieve instant scale. Having an insurance product that is mandatory can act as a powerful driver of scale. Scale is achieved instantly through access to a large group of clients who are required to take up the insurance provided. This can be done by automatically enrolling a client (auto-enrolment) or by mandating coverage (with or without auto-enrolment) in order to access a related product or service.

Mandatory insurance refers to insurance products that individuals are compelled to purchase in order to access a related product or service. They may or may not involve auto-enrolment. The primary example of mandatory insurance is credit life insurance, where customers are required by the credit provider to purchase credit life insurance in order to access credit. Protecta Peru uses this system, through its partnership with MiBanco, since MiBanco's customers are required to purchase Protecta credit life insurance in order to obtain loans. Of the case studies examined, NAIS offers another example of mandatory insurance required to access agricultural loans.

Auto-enrolment entails the automatic extension of insurance to the insured individual, without any direct action on the part of the individual (including payment of premiums). It can be divided up into the following categories:

- Government benefit, where public funding is used to meet a specific public need through insurance. The state generally enlists commercial insurers to underwrite the insurance. A specific section of the low-income population is identified as requiring insurance and is then automatically covered by virtue of belonging to that target group. For example, Waseela insures poor families against the death of the breadwinner by automatically covering those who meet a specific poverty score card level. Coverage is communicated by post.
- Member benefit to pre-existing groups involves insured individuals being automatically enrolled as part of a supplementary benefit offered by the service provider or group (such as a mobile network operator, bank or utility company) so as to enhance loyalty. The provider funds the insurance premium as a value added service to clients, thereby attracting and retaining customers, while the insurer gains access to a large client database. As in the case of state provision, no direct action is required by the insured individual in order to receive the insurance cover. Clients are automatically covered by virtue of being a client of the service provider. For

example, Tanzania's National Microinsurance Bank (NMB) offers automatic free funeral insurance, underwritten by African Life, to all active holders (1.2 million in 2012) of NMB Personal Accounts (Cenfri, 2012, p.29: doc 5). A similar strategy has effectively been put in place by Protecta Peru, which covers large groups of students through agreements with various universities.

Partnership

Access to groups

Partnership critical to access groups. A partnership between an insurer and an intermediary is critical to obtain access to a group or large database of clients and leverage specialist skills (Rendek, 2012). Insurers are unlikely to have large existing low-income client databases of their own, so depend on partners to access such groups. The insurer does not sell the insurance product directly, but uses its partner to interface with the client. All parties face risks in these partnerships: the distributor bears a reputational risk, while the insurer faces a solvency risk (Hougaard & Chamberlain, 2012, p. 233). However, the intermediary may be in a stronger position, as it controls the client. For partnerships to be successful, it is important that the right partners are found and that incentives are aligned to meet the needs of both partners.

Access to groups offer client database and distribution footprint. Through a partnership with another entity or group, such as a retailer, utility provider or labour union, the insurance provider has instant access to a database of clients to which insurance can be provided (at no charge), or sold on a voluntary basis. This substantially reduces distribution and sales costs, as well as providing an effective collection mechanism, which encourages policy retention. Access to such a group is essential in order to achieve minimum take-up levels, especially in cases where there is no compulsion. Enrolling a group of clients has been shown to be easier than enrolling individual clients for the same area²⁴ (Kiwara, 2007). However, the drawback of this system is that the client information typically remains with the aggregator and the insurer has limited control over client selection and payouts. The various kinds of access to voluntary groups include:

Cross-selling. The policy is marketed alongside another, non-insurance product. Typically, the insurance is actively sold by a salesperson employed by the aggregator. As such, the insurance product is usually ancillary to the primary product. As well as selling insurance together with credit, as is the case with Hollard and Edcon, many organizations link insurance to other kinds of transactions so as to reach poor households (Churchill & McCord, 2012, p. 35). For example, CLIS sells accident and fire insurance at transaction points in Cebuana pawnshops and Hollard's funeral insurance is available at the point of sale in Pep stores.

Appropriate partners. Finding the right partner is important for the success of collaboration. Each party should bring the appropriate skill set and attributes that can complement the other partner. For example, an insurer would have the administrative and management capacity and be able to fulfil the necessary regulatory requirements and price products, but may lack a client database or distribution network, which an MNO or retail partner could provide. In some cases, an administrator may bring valuable technical skills that can reduce administration costs and enable clients to be serviced at scale. The brand of the partner is also important, so as to encourage trust.

Five of the eight case studies relied on partnership with an intermediary to achieve scale. The other three initiatives either relied on compulsion (Waseela, NAIS) or, in the case of AVBOB, created their own insurer. Protecta, for example, used MiBanco's credit customer database to sell its credit life product. Tigo's 3.5 million MNO clients represented a client base for Vanguard Life, as part of a loyalty scheme. In South Africa, the joint venture between Hollard and Edcon

²⁴ This was for health insurance in Tanzania, but the same applies across contexts of different types of insurance.

leveraged Hollard's experience in product design and administration, while Edcon provided the premium collection platform, client base, and administration for the sales force. Edcon's database of 3.8 million accounts also provided information on age, gender, monthly spending and other consumer preferences that enabled partners to understand their clients and tailor products according to their needs. Under the joint venture design, responsibility for product decision-making was shared between Hollard and Edcon.

Align incentives of partners. Partnership comes with risks. To benefit from the comparative advantage that each partner offers, the incentives for each party must be appropriately aligned so as to encourage partners to enter into and continue with the arrangement. Incentives are also required in order to drive the intermediary to sell the insurance. Incentives could include flexibility in profit share/remuneration strategies and tailoring the product to meet both partners' needs (including marketing strategies and risk mitigation, as is the case for credit life partnerships between banks and insurers). Benefits from insurance could enhance the reputation of the partner. In the Hollard/Edcon example, the insurer was approached by the retailer who wanted to use credit life insurance to minimize its losses from credit defaults. In the case of Casas Bahia, MAPFRE approached the retailer, but again both parties were involved in the product design. This type of involvement limits reputational risk for a company that has an imperative to ensure quality products for its customers. The Ecolife Zimbabwe example, presented below, offers an illustration of a failure in the partnership relationship.

Box 2: When partnership fails: Ecolife Zimbabwe

Ecolife was a Zimbabwean loyalty-based m-insurance service, defined as tangible, which was offered as free life cover exclusively to Econet subscribers. The product was provided on a monthly basis and required Econet subscribers to opt in. The provision of Ecolife was facilitated by a tripartite partnership between Econet – a leading Zimbabwean MNO – First Mutual Life – a Zimbabwean insurer – and Trustco, a Namibia-based technology service provider. On 7 June 2011, seven months after the launch of the product, Trustco terminated its agreement with Econet due to a dispute concerning royalties payable to the former. This limited Econet's ability to manage the product and add additional subscribers to the Ecolife service and resulted in the cessation of provision of Ecolife. Overnight and unexpectedly, between 1.2 and 1.5 million Econet subscribers lost their life cover and the client-facing partners bore reputational damage.

The Ecolife Zimbabwe case highlights the risk involved in partnership and the importance of aligning incentives of the various partners engaged in the provision of a particular product. Econet sought to increase its average revenue per user and reduce churn, while First Mutual Life sought to increase its market share by catering to a new client segment. Trustco's motive was purely profit-based. Structuring agreements to meet these multiple objectives can be difficult. Ultimately, the difference in objectives among partners may have implications for the sustainability and lifetime of the product being provided. It is therefore important for all partners to align objectives or at least incentives, so as to ensure that insurance cover can be provided over the longer term, thereby reducing the reputational risk to partners.

(Leach and Ncube, forthcoming)

Brand

Trust requires a strong brand. Trust is a critical driver of take-up. Insurance is a complex intangible product that holds risks for the insurer, the intermediary partner and the client. A strong brand is fundamental to build trust and encourage the different parties to enter into insurance related agreements.

Brand to attract partners. The strong brand of a company initiating an insurance partnership can improve its ability to attract an appropriate partner with the qualities needed to succeed in achieving scale. Partnership involves risk for both parties. A strong industry brand is an indication that the partner can be trusted and potentially has something to lose if

the partnership does not work. If one partner does not have faith in the other, both are less likely to enter into any agreement, or may require additional remuneration as risk compensation.

Hollard, for example, had a good industry reputation as an insurer that was willing to innovate, and this encouraged Edcon to approach Hollard as a possible partner. Edcon had a strong brand as a retailer, which encouraged Hollard to agree to the partnership.

Brand to attract clients. An industry brand is an important asset for attracting partners. To attract insurance clients, a different type of brand awareness is required. Individual customers need to recognize and trust the insurance brand. This is particularly relevant if voluntary sales are made directly to the client through agents. In many instances, the brand of a retailer or MNO may be better known and trusted than that of the insurance company. For this reason, cross-selling is a good starting point for distribution. Hollard, for example, was not well known to individual consumers in South Africa when it launched its Edcon initiative. The company leveraged the brand of the retailer, and through this channel promoted its own brand to the public. AVBOB, which expanded its distribution channels from group burial societies to individual voluntary products sold by agents, cites brand association with its funeral product and perceived good service as a significant driver of scale.

Product and process design

Value is a cornerstone to voluntary take-up. Clients are unlikely to choose to start or continue purchasing insurance if it does not hold value for them. The product and process design becomes a particularly significant driver of scale where voluntary products are sold to individuals, as they have to be convinced that the product will meet their specific needs. The following product and process design features emerged as significant drivers of scale:

Simplicity. Simpler products are better understood by clients and more likely to deliver on client expectations, which in turn encourages take-up. Even a value-for-money product could be turned down by clients if it is difficult to understand (Dalal and Morduch, 2012). Focus group discussions in many countries have shown that respondents value simplicity in product terms, including payments and benefits.²⁵ In the PACE client value assessment tool framework (Matul and Kelly, 2012), simplicity is cited as a fundamental principle, given the low literacy levels of consumers. In the case studies included in this report, CLIS and AVBOB cited product simplicity as a driver of scale, including the sales process. Staff working for an aggregator are less likely to promote products that are difficult and time consuming to explain.

Affordability. The price of a policy is one of the biggest considerations for clients contemplating insurance. Products must be affordable for the low-income market. Affordability is often based on the client's perception of the premium relative to the potential impact of the risk event, rather than as an absolute measure. CLIS' Alagang Cebuana Plus is an example of an affordable product, with a premium of US\$ 0.61 for four month's coverage, offering up to 20,000 pesos (\$ 500) in personal protection and 5,000 pesos (\$ 123) in fire assistance. Clients can buy up to five certificates at a given time to increase cover. Tigo's "freemium" or paid coverage costs \$ 0.68 per month and is deductible from clients' airtime. These premiums are considered highly affordable by the target sector, a factor that drives product take-up. From the insurer's perspective, a low price must be balanced with financial viability. Enablers such as technology and subsidy can thus play an indirect role in supporting take-up, as they lower costs and hence increase affordability.

Convenience. The easier and cheaper it is to use a product, the more likely it is that people will buy and retain the policy. Convenient methods of sale and premium collection are particularly important for achieving take-up and retention. Edcon's credit life product is sold by ticking a box when opening a credit account. Premiums are deducted from the client's retail credit account each month, requiring no extra administration for the client. CLIS cross-sells its insurance policies through its pawnshop distribution network and renewals coincide with the expiry of the terms of pawned item contracts. Tigo uses automatic (pre-approved) deduction of premiums from a client's airtime balance each month, with no action required from the client.

Tangibility. Insurance is a credence product²⁶, which means that it lacks tangibility for clients. Consumers only experience benefits if an uncertain future event occurs. Tangible in-life benefits, such as benefit cards or linked services (e.g. funeral services), improve the value derived by the client and increase the likelihood of product take-up and retention. Even

²⁵ See Cenfri "Microinsurance in Brazil" (2010); "Microinsurance in Rural China" (2013); "Kenya Microinsurance Landscape" (2010) among others.

²⁶ A credence product is a type of good or service whose sellers are also the experts who determine the customer's needs (Wolinsky, 1995).

using a card to access claims, such as a health insurance card, improves the perceived tangibility of the product. For example, Protecta issues a benefit card for all its group policies. These offer value-added services to insurance clients, enabling them to benefit from insurance even if the risk event of accident or death does not occur. AVBOB provides in-kind benefits in the form of funeral services or discounts on funeral services, such as transport, coffins and tombstones. CLIS offers in-life benefits in the form of free doctor consultations among its value-added services.

Tailoring of product. As well as ensuring that a product is appropriately tailored to the distribution mechanism, it is important that voluntary insurance products meet specific client needs, since insurance competes with other risk-coping mechanisms and spending priorities. The requirements of the target market must be properly understood if products are to be designed in such a way that they meet client needs, thereby generating high volumes of take-up. Client data, obtained directly by the insurer or the distribution partner, can be analysed to improve product and process design. Client feedback can also be a useful mechanism for improving products so as to meet client needs.

Group policies, such as those sold by Protecta to universities and municipalities, are tailored to a multiple audience. This is less of an administrative burden, but has the disadvantage that it does not tailor to clients' specific risk profiles, which may result in lower value for the client and increased risk for the underwriter. AVBOB and CLIS cite regular client feedback, in the form of surveys and complaints, as a key component in improving its products to meet client needs.

Product perception

Awareness and communication. A product will only hold value for clients if they are aware that they are covered and can make a claim in respect of the policy. Communication can be conducted through individual client interaction, as well as by public marketing initiatives. Regular interaction with clients keeps them informed of the benefits and improves the tangibility and value of the product. This encourages policy retention. Public marketing reinforces the brand value of a product and attracts new clients. Tigo's use of a monthly text message to clients to communicate cover available and remind them of premiums payable, is an example of effective client interaction.

Demonstration effect. Clients in the low-income market are often unfamiliar with insurance. The various product and process design factors listed above all contribute to the way in which the client experiences the product, and this in turn influences take-up and policy retention (e.g. quick, simple claims payout, ease of use, access to information, meeting product expectations), especially in cases where clients are unfamiliar with insurance. Additional clients could also be attracted to the product through word-of-mouth. A positive experience builds critical client trust, which encourages policy take-up and retention (Bester et al., 2009).

Agents

Insurance is traditionally sold, not bought, largely by agents²⁷, who actively promote the product in question. Agents provide information and represent the "face" of the insurer, thus promoting trust and providing tangibility for the insurance product sold. They are also paid commission to actively engage with the client in order to sell the product. In microinsurance, this distribution model is often considered too expensive, given the small margins available to pay commission, but returns on the use of agents can be high. AVBOB, Tigo and Hollard report having doubled and tripled take-up following the introduction of agents. Creative methods of using agents, often linked to cross selling, have emerged from many of the case studies.

Incentives to sell. Agents are generally remunerated through commission, based on the number of sales or quality of sales made, or both. This provides incentives for them to find new clients and to be creative in building a case for the insurance tailored to that particular client's needs. AVBOB uses agents (both at the funeral parlours and in the field) as their primary distribution channel and these are remunerated solely on a commission basis. Hollard recently introduced agents at the premises of Edcon, substantially increasing sales volumes through the retailer. A similar initiative was introduced by Hollard on a pilot basis at certain Pep stores, increasing sales through these outlets by more than 300 per cent²⁸. Whatever incentives are used, they must be carefully managed to ensure value to clients.

²⁷Agents, here, include independent agents (represented by multiple insurers), tied agents (representing one insurer) and "affiliated" agents, representing the brand of both the aggregator and the insurer.

²⁸ This method was discontinued as it was not in line with the Pep sales strategy.

Linking agents to trust in a brand. Agents can be branded as insurer agents or affiliated to the distributor, although their main activity will be sale of insurance. In trying to achieve scale, it is important that the brand is trusted and that the agent is well informed and has the incentive to sell insurance. Agents will give priority to selling the product that generates the highest commission. A dedicated insurance agent is therefore likely to achieve higher take-up than one selling multiple products²⁹. Hollard and AVBOB use such dedicated sales agents, while CLIS and Casas Bahia use retail staff to cross-sell insurance.

EXTERNAL DRIVERS

External drivers are factors related to the environment, political economy or market that directly increase uptake, but that are beyond the control of the initiative. These are significant when evaluating potential new markets (Bester et al., 2009).

Government imperative. Governments can directly increase take-up through auto-enrolment of a target group or premium subsidy. Lower income insurance markets often have to be created (Bester et al., 2009) and governments can play an important role here. The state can identify a policy objective that it wants to address through insurance. These policies may take the form of a subsidy, regulation, or auto-enrolment of a target group. Subsidizing the premium of an insurance product reduces the cost to the client, thereby improving affordability. Affordability and auto-enrolment are key drivers of scale, as indicated above. India is often cited as a global leader in microinsurance innovation (Ruchismita and Churchill, 2012) and as an example of effective state involvement in microinsurance. In order to better secure livelihoods earned from agriculture, India introduced NAIS to cover individuals dependent on agricultural loans. As result of this initiative, 25 million people were enrolled in insurance policies.

Latent demand. Insurance is generally sold, not bought. In some instances, this is not the case and consumers seek out insurance products. Latent demand refers to active demand to purchase an insurance product with the aim of covering an unavoidable risk event. This demand is often linked to a particular product, such as funeral services in Southern Africa (Hougaard and Chamberlain, 2012), as well as health and legal insurance. AVBOB, Hollard and Tigo illustrate how latent demand could be a driver of scale, since related markets value high-cost funerals. This drives take-up of funeral and life cover (to pay for funeral costs).

INTERNAL ENABLERS

Low-cost initiatives that offer good service are crucial in order to serve large numbers of clients – often paying very low premiums – in a sustainable manner. It is also important that initiatives are innovative, so as to take full advantage of being the first player in the market. Enabling environments and regulation can play a role in allowing initiatives to achieve scale.

Technology-client interface. The way in which a client experiences the insurance product is an important factor in the decision to take-up and retain insurance. The experience starts with the sales process and continues with subsequent interactions, involving premium collection, ongoing communication of benefits and ultimately effective settlement of claims. High quality frequent engagement can be prohibitively expensive for large volumes of clients who pay small premiums. Technology that supports this process in a simple cost-effective way helps providers to operate at scale more effectively. Tigo sends a monthly text message to clients, either reminding them to renew their policy, or communicating their level of cover. Technology is also used to facilitate premium collection, conducted by making automatic deductions in airtime balance. CLIS sends a text message to clients to communicate the status of claims. This technology offers convenience and improves tangibility, both of which are drivers of scale, as described above.

Technology-administration. Technology supports the administrative function of the insurance initiative. An efficient, low-cost administrative system services clients effectively, improves the client experience and provides good quality management information that can be used to tailor products or improve pricing models. These requirements are critical to supporting the provider in achieving scale. AVBOB and Hollard both highlight the importance of client data in efforts to tailor products and refine pricing.

²⁹ In some cases, earning commission from avenues other than insurance may be required to offer the agent sufficient compensation so as to retain them.

Human resource capacity. The experience and competence of management is critical to develop appropriate microinsurance strategies, arrange partnerships and tailor products and processes to achieve take-up and sustain scale. Furthermore, a well-managed and trained sales and administrative team can improve sales, premium collection and claims processes. These areas are all essential to the client experience and can achieve a positive demonstration effect.

EXTERNAL ENABLERS

Subsidies. A subsidy can improve the sustainability of an initiative by guaranteeing a fixed revenue stream (auto-enrolled target group) or reduction of costs (subsidy of operating or other costs). Waseela and NAIS are examples of state subsidized schemes. While NAIS still requires a premium payment from farmers, Waseela is fully subsidized.

Regulation. Regulation can impact the cost of provision, as well as dictating who can provide insurance, or who can be an intermediary for its provision. This will in turn influence the trust that clients have in insurance. The regulatory burden imposed on insurers can be divided into entry requirements and compliance requirements:

- Preconditions for entry: By limiting the number of players, high entry requirements can restrict competition in the market, thereby indirectly increasing costs to the consumer and limiting access to insurance. It may also make it difficult for innovation in intermediation by posing limitations on the partners that insurers can use to deliver insurance.
- Ongoing compliance requirements: compliance requirements include compliance with prudential regulation, intermediation regulation, product requirements and other market conduct requirements, all of which add costs to insurers' operations. Market conduct requirements protect consumers and can improve trust in the industry. This is a fine balance, as consumers may be protected out of the market, where overly burdensome consumer protection requirements increase costs beyond levels that consumers can afford. If compliance costs contribute to insurers being unable to provide products at below the affordability threshold of the target market, then there will be no expansion in access to insurance (Carmichael and Pomerleano, 2002).

Interestingly, very few insurers interviewed for this study mentioned regulation as either a barrier or an enabler for insurance.³⁰ This could be the result of selection bias, where overly stringent regulation has resulted in certain markets not providing insurance to the low-income market at scale, with the result that certain cases did not qualify for this study.

Market structure. Limited competition allows the insurer to charge higher premiums, as well as lowering distribution costs so as to sell to clients who have unmet risk mitigation needs. Being the first mover in a new market could be an important contributing factor to achieving scale. It allows the initiative to become the first to select its partners and to establish its brand ahead of other insurers. Tigo is an example of a first initiative in offering life cover as a loyalty scheme in the Ghanaian market. CLIS also claimed this status when it used a pawnshop network as a distribution channel. This strategy can also be expensive, as insurance is unknown to the market. In some cases, following on rapidly behind the market initiator could be more profitable.

Infrastructure, income levels and urbanization. Physical infrastructure within a country, including the level of connectivity, development of national payment systems, road infrastructure and electricity, is an important enabler of scale. Without these fundamental foundations the cost of providing microinsurance can be prohibitively high and it may be difficult to collect premiums in a cost-effective way. Higher income levels in a given country may promote demand for insurance, since a larger proportion of the population can afford these products. Increased urbanization decreases the distribution cost of insurance, which can play an important role in serving a large volume of clients in a sustainable way.

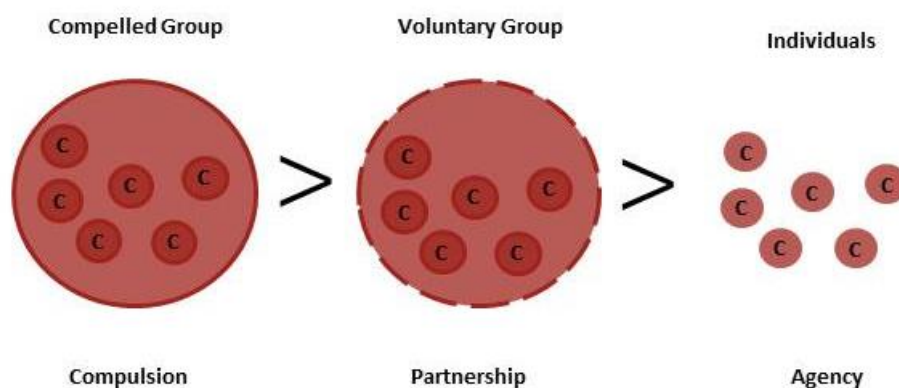
³⁰ Cenfri has conducted regulatory analyses in several country level microinsurance diagnostics. A number of studies have demonstrated the importance of enabling regulation to improve insurance market development (Cenfri, Forthcoming).

5 > STAGES OF SCALE

Drivers build on each other to achieve scale. Many of the drivers of scale mentioned above do not achieve scale on their own. A well designed product will not instantly result in high sale volumes. An effective distribution strategy is required to reach the low-income market. A cross-selling strategy is unlikely to drive the initiative to achieve scale unless appropriate partnership arrangements are made. When looking at the case studies it becomes apparent that the drivers build on each other to achieve scale in different stages.

Scale evolves through three stages. Three stages of scale have been identified from the case studies and are supported by global evidence drawn from other microinsurance initiatives. These stages represent a model of the evolution of scale for microinsurance initiatives. Not all initiatives go through all stages. However, adopting the stages out of sequence or skipping a stage makes it much harder for initiatives to achieve scale. The first stage is compulsion, in which insurers initially partner with one intermediation channel to provide automatic or mandatory insurance products to clients. This market can quickly become saturated and the initiative moves to the second stage to grow. The second stage is characterized by partnership, where the insurer sells voluntary insurance to current clients, as well as to additional pre-existing groups. The focus on this stage for the insurer is to build its brand and its relationships with partners. The third and final stage entails a move by the insurer to target individual sales through agents. Growth is now possible beyond groups and reliance on partners is reduced. This stage requires the insurer to design products and processes that can attract individual clients, including appropriate agent models.

Figure 8: The stages of scale



Frontier markets drive evolution. Insurers have to continuously find new clients or target markets to increase or even retain market share in the presence of competition (Wipf et al., 2012). This is especially important in the low-income space, where selling multiple products to existing clients is not always feasible. The process of seeking these “frontier markets” pushes the insurer from one stage to the next. The initial focus of the initiatives is on achieving scale as rapidly as possible, and therefore the ideal target is an easily accessible captive group. However, as this target market becomes saturated, the insurer seeks new frontiers, so as to grow further. The focus shifts initially to voluntary groups and then to individuals, each time broadening the scope of the target market. As an initiative progresses through each stage it maintains its existing clients, but refines its strategies to attract and serve a new type of market. Each stage of scale has therefore been defined by the frontier market targeted during that stage.

The three stages of scale are discussed below:

STAGE ONE: MANDATORY GROUP SALES

Offering insurance to the low-income market in a sustainable manner is difficult. The low-income market is neither familiar with, nor distrustful of insurance, and its needs often differ from those of higher income markets. New approaches to

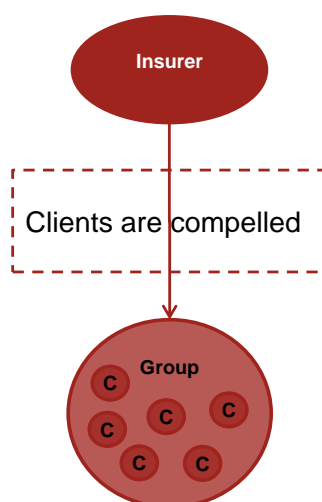
distribution, partnership and product design are often needed to reach clients and reduce costs to levels that are affordable for this market. The need to address these challenges sustainably within the confines of small profit margins makes achieving scale quickly an imperative.

Table 3: Case studies in Stage One

Case study	Description
Waseela	Waseela covers more than 4 million low-income Pakistani households by automatically enrolling all households which are identified, via a Poverty Score Card, as falling within the low-income bracket.
NAIS	NAIS covers more than 25 million Indian farmers with index-based agricultural insurance. The majority of these (85 per cent) are compelled to purchase the partially state subsidized cover when taking out a loan.
Protecta	Protecta initially reached the majority of its clients (800,000) by providing compulsory credit life insurance through its partner MFI, MiBanco.

Compulsion achieves instant scale. The essential feature that characterizes the first stage of scale is the provision of an insurance product to the client on a mandatory basis. This includes state driven auto-enrolment, service provider auto-enrolment as a loyalty benefit and mandatory insurance in order to access another product or service.³¹ The insurer typically partners with an intermediation partner such as the state, a bank, retailer, MFI, utility or any other non-insurance entity with access to the client base that is required to take up insurance.

Figure 9: Stage One - mandatory group sales



Source: Authors' own

Intermediation partner typically launches microinsurance initiatives. Initiatives in Stage One are frequently launched by the intermediation partner, rather than by the insurer. In the case of insurance as loyalty benefit, the incentive for the service provider is to improve value to its consumers, thereby improving loyalty. In the case of mandatory insurance provided by the state, the incentive for the state is to address social goals and enhance welfare by covering segments of the population against specific risk events. Insurance can also be provided to mitigate risks faced on other products or services, as is the case for credit life, where insurance mitigates the risk of default of the loan in the event of the borrower's death.

³¹ Section 4 explains both auto-enrolment and mandatory insurance as used in this study.

Instant scale is crucial to sustainability. The insurer obtains immediate access to a large client base by compelling a captive group to purchase its product. This allows the insurer to achieve immediate scale without incurring any sales costs and often requires minimal distribution costs, since insurance is delivered alongside other products and services. This immediate scale is crucial to the sustainability of a microinsurance initiative, due to the lower premiums of microinsurance products, compared with those of the traditional insurance sector. The benefits of economies of scale, reduced distribution and sales costs, guaranteed revenue streams and a large risk pool that come with compulsion allows the initiative to survive the first years of serving the low-income market. This gives the insurer time to learn about the low-income market and establish its brand among this segment – an essential prerequisite for targeting further low-income groups.

Compulsion is the only essential driver of scale in Stage One. The only substantial driver of scale in Stage One is compulsion. Initiatives extend insurance cover to large numbers of people based solely on the fact that the individuals are enrolled, without actively making a decision to be covered.

Simple systems are required in Stage One. Stage One requires relatively simple administrative systems and technology, as the insurer only has to deal with one group of clients, one product and one main partner. The insurer can also piggy back on the intermediation partner's infrastructure, meaning that the insurer does not need to invest in significant physical distribution infrastructure and systems.

Potential to offer value. Compulsion can provide poor value (in the form of slow claims payments, lack of non-claims benefits and poor affordability), where it is designed with the goal of purely covering the risks of the provider. However, compulsion can also offer value when it is properly designed, due to the cost reduction impact of compulsion and the fact that it often goes hand in hand with some form of subsidy. Compulsory insurance is often the first experience that low-income markets have of insurance. Offering value during this stage is therefore critically important for positive market discovery (Bester et al., 2009).

Awareness of compelled insurance is key to achieving value. Compulsion creates the risk that individuals are unaware of cover. For insurance to have value, it is essential that insured individuals are aware that they are covered and can claim. The primary risk arising from Stage One compulsion is that the insured individual is unaware that he or she has insurance cover and is therefore unable to lodge a claim should the risk event occur. Policy awareness needs to be actively managed in Stage One due to the absence of an active sales process. Also, the fact that no or limited action is required by the insured individuals reduces the likelihood of their being aware that they are covered, or of the level and nature of that cover.

Box 3: Initiatives in Stage One - The 'Fujian' model in China

In the Fujian model, instituted in the Fujian province in China, provincial authorities contract commercial insurers to provide blanket housing insurance for all rural households. Participation is thus automatic, with the premium fully paid by the provincial and municipal governments.

The insurance initiative was started in August 2006, when provincial authorities contracted commercial insurers to cover 6.63 million households in the province (excluding Xiamen). Under the scheme, insurance companies in all counties (cities and districts) provide a unified insurance policy for a one-year period. (Cenfri. forthcoming)

STAGE TWO: PARTNERSHIP

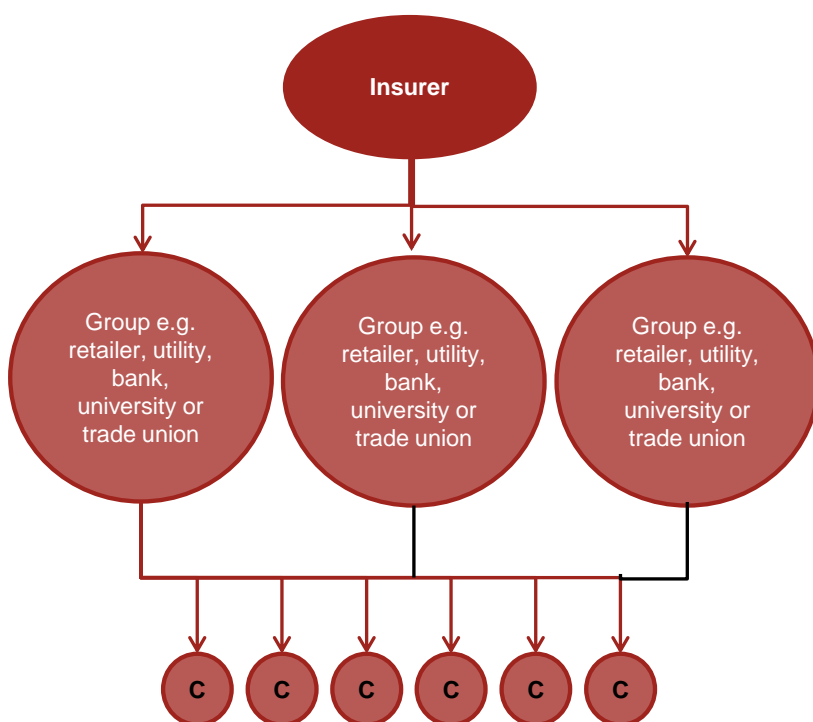
The market for compelled insurance can quickly become saturated. Limited opportunities are available to partner with institutions in order to offer this type of insurance. Further expansion to voluntary groups is therefore ideal for growth. This strategy leverages the existing capacity, skill set and brand of the insurer, while increasing its target market.

Table 4: Case studies in Stage Two

Case study	Description
NAIS	NAIS has progressed from Stage One to Stage Two by offering agricultural index insurance on a voluntary basis, in addition to its compulsory insurance for farmers taking out loans. The insurance cover is also offered through multiple distribution channels, including rural banks, MFIs and Primary Agricultural Credit Societies (PACS).
Tigo	Tigo started in Stage Two by offering voluntary opt-in insurance. Tigo, which has 550,000 active policies, was able to skip Stage One compulsion by offering the insurance cover on a fully subsidized basis. As the insurance cover is effectively free, compulsion was not required to achieve scale rapidly. A freemium model has been introduced to cover part of the cost of the insurance.
Protecta	After initially reaching large numbers of clients through compulsory insurance offered via MiBanco, Protecta has since targeted additional groups through which to distribute insurance, including other MFIs, universities, municipalities and pharmacies. The insurance is voluntary through some of these channels and compulsory through others.
Hollard	Hollard initially achieved scale through its Edcon partnership by actively selling voluntary credit life through Edcon sales staff. Compulsion was not required as the cover was extremely convenient (a tick-box approach), affordable and supported by a highly active sales process. Seeking further growth, the insurer formed multiple additional partnerships with various large South African retailers and other groups, including Pep, Spar and Truworths. Hollard offers a variety of voluntary insurance products through these channels, as well as through a direct sales channel.
CLIS	CLIS offers voluntary insurance through the network of pawnshops owned by its fellow subsidiary. Compulsion was not required since, as in the case of Hollard, the cover was very convenient and affordable and sales staff were given incentives to actively sell the insurance. Its partnership model is highly successful, with 60-70 per cent of pawnshop customers taking up the insurance.
AVBOB	AVBOB began in Stage Two, distributing its funeral insurance product through multiple funeral parlours on a voluntary basis. AVBOB built its brand over a long period of time, attracting customers to its funeral parlours, and this lowered the cost of finding clients. The high level of latent demand for funeral insurance in the South African market was therefore a key reason that AVBOB could skip Stage One.

Partnership can extend scale beyond compulsion. The second stage of scale therefore entails the insurer forming partnerships with multiple groups, through which voluntary products are distributed to the partner's respective clients. The insurance products are generally cross-sold with the products and services sold by the intermediation partners. The insurance product is not sold directly by the insurer or by an independent insurance broker or agent, but rather by a non-insurance third party to their existing clients. The primary client relationship is generally held by the intermediation partner rather than by the insurer.

Figure 10: Stage Two - multiple groups



Growth is the primary incentive for insurer to proceed to Stage Two. The move from the first to the second stage is most often initiated by the insurer, which seeks new growth opportunities in targeting multiple groups. The frontier target group for the insurer shifts from the compulsory group, as that target market is quickly saturated, to additional voluntary groups. This also allows the insurer to spread the risk of partnerships breaking down, since it is not reliant on a sole primary partnership. The primary incentive for the intermediation partners lies in having the opportunity to offer additional services to consumers, so as to increase loyalty and establish an alternative revenue stream.

Partnership and access to additional groups are key drivers. The primary drivers of insurance take-up in Stage Two are the access of the insurer to additional groups and partnerships, or offering voluntary insurance to an existing group that was previously using mandatory insurance. These two are closely related, since the insurer gains access to the various groups by forming partnerships with them. These groups may include commercial client databases, such as a retailer or a utility's client base, or a pre-existing group, such as a university or trade union. For an insurer to grow, it needs to form partnerships that maximize the number of individuals to which it has access through existing groups. Partnership brings substantial risk to the insurer, in terms of branding and potential insolvency. In order to firstly secure, and then maintain these partnerships, the insurer needs to find the right partners and ensure that its incentives are aligned with those of the partner. The insurer's brand is also an important driver in developing partnerships, since a strong brand acts as a signal to potential partners that the insurer has a track record and can be trusted to help them in achieving their goals.

More advanced back-office and client interface systems are required in Stage Two. The insurer's administrative processes and systems will now have to handle a wider variety of products and clients than in Stage One, requiring more advanced technology and capacity. However, the insurer will still be able to piggy-back on its partners' existing infrastructure in order to administer client policies.

Aggregator could enhance or decrease client value. The presence of an additional entity between the insurer and insured in the sales process, in the form of the distribution intermediary or aggregator, may decrease client value and result in inappropriate products being sold to clients.³² The aggregator controls the client and can thus command substantial fees to allow the insurer access to the client. This in turn impacts the cost of insurance to the client. The

³² In the mass distribution models used for microinsurance in Brazil, for example, the client has its primary relationship not with the insurer, but with the retailer or other third party and the primary content of that relationship does not relate to insurance, but to the business of the third party, whether that is retail, microcredit or banking. The market analysis shows that insurance products sold through these channels often serve the risk mitigation interests of the distributor more than they meet the risk mitigation needs of the client (Cenfri, 2010, p. xv) (Cenfri, 2010, p. xv).

product may also be designed to meet the needs of the aggregator, as opposed to those of the insured individual, and this could reduce value. Mis-selling may also be a risk, where insufficient or inaccurate product information is provided through passive sale strategies³³, or by insufficiently trained aggregator sales staff.

Client value could, however, also come in the form of enhanced convenience or access, as a result of cost reductions in distribution, or in cases where the intermediary actively participates in product design, ensuring that clients are effectively served, with more convenient access. This is especially significant where the aggregator has substantial client data which can be used to tailor products to better meet client needs.

Box 4: Global examples of Stage Two initiatives

CODENSA-MAPFRE - Colombia

MAPFRE is part of the Spanish MAPFRE Group and provides insurance globally. In South America, it has formed partnerships with retailers, such as Casas Bahia, MNOs, such as Vivo, and utilities.

CODENSA is the largest electricity distribution company in Colombia. In response to increased competition, since 2002 CODENSA has offered a customer loyalty programme to strengthen its customer base. A core component of the strategy is to offer customers alternative, non-electricity products that can be paid through their electricity bill. To develop their insurance offering, CODENSA entered into a partnership with MAPFRE Insurance in 2003.

CODENSA contributes its customer base, brand and premium collection mechanism to the partnership, while MAPFRE is responsible for designing and underwriting the insurance products. In recent years, CODENSA has started to identify different types of needs among its customers and has played a more active role in suggesting the design of products that meet these needs to MAPFRE.

The insurance is sold by the CODENSA sales force, which is trained by MAPFRE in the technical aspects of insurance necessary for assessing the customer. CODENSA also provides the team with training in sales and marketing.

Metropolitan Life and SADTU - South Africa

Metropolitan Life offers insurance products through multiple channels, especially providing group policies for employers and organizations. It offers products tailored to suit the needs of employees/members in the lower to middle income group.

One of Metropolitan Life's partnerships is with SADTU (South African Democratic Teachers Union). SADTU has negotiated funeral insurance products at discounted prices for its members through agreements with Metropolitan Life (and Prosperity and Old Mutual). These products are voluntary and SADTU is not involved in the administration process, but informs the members of their availability at meetings. Insurers with which SADTU has agreements are invited to the SADTU meetings to market their products. Metropolitan pays a fee to SADTU to market its products during SADTU meetings (Cenfri, 2013).

STAGE THREE: INDIVIDUALS

Partnership has limitations. The distribution partner generally controls the client. This increases the risk to the insurer's brand, limits the information available on the client so as to tailor or price products and increases the cost to the insurer

³³ For example, insurance bought off the shelf, such as the Hollard/PEP funeral product.

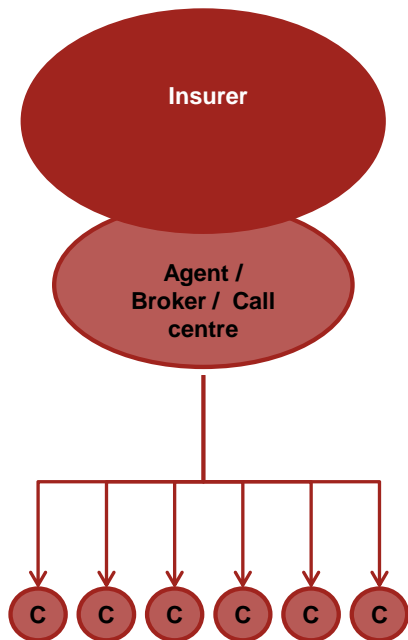
where profits need to be shared or the distribution partner paid to access its client base. Appropriate partnership options may also be limited. Insurers can overcome this by targeting individuals.

Table 5: Case studies in Stage Three

Case study	Description
Hollard	Hollard has moved into Stage Three by targeting individuals directly through the development of its own agent sales force, comprising field agents in separate branch infrastructure, as well as roaming agents. Hollard's direct sales still account for a relatively small proportion of its total client base, but management indicates that sales made through agents have seen significantly higher success rates - 400-600 per cent, than those conducted through other channels.
AVBOB	AVBOB is now predominantly reliant on its agent sales force of a few thousand roaming agents to target individuals. AVBOB has developed strong brand awareness in the market and maintains a simple product tailored to meet clients' needs through various client feedback mechanisms (call centres and surveys).
CLIS	CLIS has recently moved into Stage Three with the introduction of a small agent force dedicated to selling insurance, extending targeting from its partnership group to individuals.

Agents needed to attract individuals. Agents are employed to target individuals on a voluntary basis in Stage Three. As insurance is a credence product, the ability of an individual agent actively selling insurance to build trust and understanding is central to increasing the take-up of the insurance product, particularly in developing insurance markets. Figure 11 below shows how the insurer interacts with its clients through an agent force, which may include roaming agents and an outbound or inbound call centre.

Figure 11: Stage Three - sales through an agent force



Growth, persistence and reduced bargaining power are incentives to move to Stage Three. There are three main incentives for an insurer to progress from Stage Two to Stage Three:

1) *Growth of the target market.* Contracting agents to sell their products allows the insurer to target the entire population, rather than simply limiting sales to members of partners' databases. Competition in existing sales models could also mean that different partnership possibilities are saturated. The frontier target market therefore shifts from groups to the entire population, so progressing to Stage Three allows the insurer to increase growth. The introduction of agents need not replace existing strategies, but can be complementary, for example in cases where agents are introduced at aggregators. Consultations with AVBOB and Hollard indicated that introducing agents dedicated to selling insurance achieved substantially higher uptake.

2) *Increased persistence.* Sales made by agents may increase the persistency of policies, since consumers are more informed and the tangibility of the product provided to the client from one-on-one interaction with an individual agent increases trust and understanding in it, together with its benefits. This has the effect of reducing lapse rates.

3) *Reduce the bargaining power of partners.* The intermediation partner has a disproportionate level of bargaining power in the relationship with the insurer, since this partner has a direct relationship with the client. The client may associate the insurance with the brand of the distributor rather than with that of the insurer. The client accesses insurance through the distributor/aggregator network. Client data is generally maintained by the aggregator and may not be accessible to the insurer. In some cases, the insurer may not even have a say over who will be covered by the aggregator. The insurer is therefore reliant on the partner for survival, as it has no other means with which to reach its clients. On the other hand, the intermediation partner can continue with its core business without the insurer, creating an environment of distorted bargaining power. An agent network assists the insurer in building direct client relationships, reducing its reliance on partnerships and improving its ability to manage risks.

Product design, brand and agents are key drivers of scale. Voluntary sales to individuals compete with other spending priorities. Individuals must therefore be convinced that the insurance will meet their needs and trust that the insurer can deliver on its promise to pay when a risk event occurs. Primary drivers of take-up are a trusted brand, a well designed product and an agent who has the incentive to inform the client of the merits of the insurance product being sold.

Greater administration capacity and infrastructure are required in Stage Three. Back-office administration processes and client interface technology needs to be capable of handling more complex products sold to a wide variety of clients. The insurer also needs to develop the appropriate capacity to manage its agent force and the physical infrastructure to support its own distribution channel.

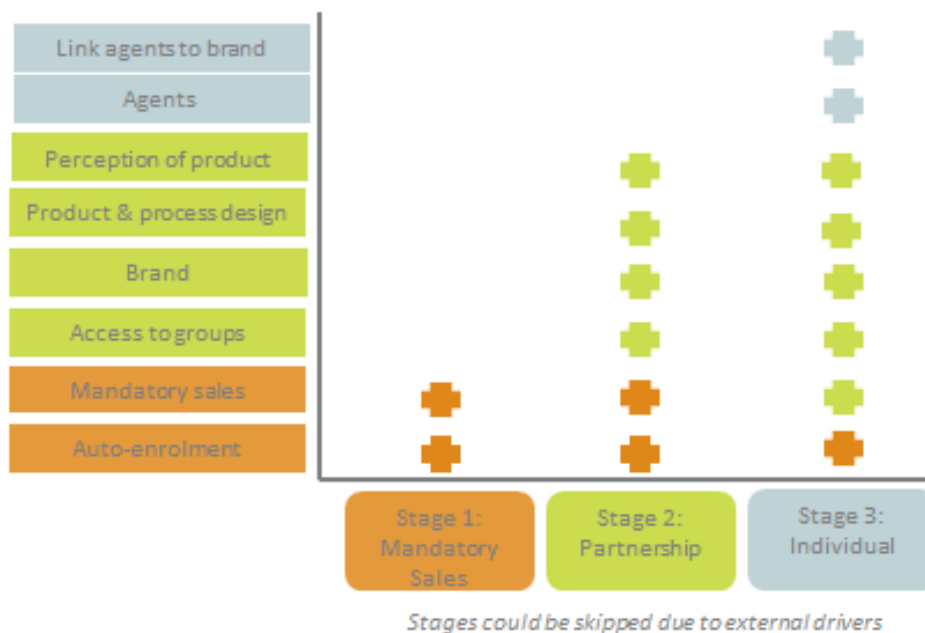
Sales risk could affect client value. Products should deliver substantial value in Stage Three as these are tailored to meet client needs. Mis-selling could remain a risk if the incentives of the sales agents are misaligned with those of the client. This could increase initial uptake but reduce retention. Incentivizing agents on both numbers and quality of sales, as well as using new technology to monitor agents, could overcome these challenges, though this approach requires more sophisticated and expensive systems.

MOVING THROUGH THE STAGES

Moving from one stage to the next requires basic building blocks to be in place that are generally developed over time. As indicated, above not all initiatives follow the same model, but skipping stages is often difficult.

Figure 12 below illustrates the main different drivers identified that increase take-up across the three stages. The figure shows how drivers from the preceding stages are generally in place before the initiative can proceed to the next stage. Other drivers may be present, but are less crucial for scale at that stage.

Figure 12: Most significant drivers per stage



Source: Authors' own

- Stage One allows the initiative to achieve immediate scale through mandatory sales, thereby enabling the initiative to benefit from economies of scale and a larger risk pool, ensuring sustainability. Initial enabling back-end systems and technology are also established, as is management capacity. The insurer is able to use the intermediation partner's physical infrastructure for distribution, which substantially reduces the initial investment required by the insurer. This stage also buys the insurer time to learn about the low-income market and for clients to appreciate insurance.
- Stage Two then requires the initiative to enhance capacity by developing technology and pricing systems to cope with multiple channels, types of clients and voluntary products. Brand development is also an important aspect of Stage Two, increasing levels of awareness and trust in the insurer, enabling it to finally move to Stage Three.

In order for an initiative to make a successful transition to Stage Three, it uses the building blocks developed during the previous two stages. It can then build on its existing technology, processes, infrastructure and brand to administer individual voluntary policies sold through agents.

Initiatives in later stages maintain earlier stage distribution channels. Moving to a later stage does not preclude the initiative from using the strategies of earlier stages. The transition from Stage One to Two involves the insurer in starting to offer voluntary products through multiple groups. However, it still maintains the pre-existing compulsion channel that was established in Stage One. Similarly, an initiative moving to Stage Three begins to contract the services of individual agents, but continues to offer insurance products through partnerships that were established in the previous stages. Hollard, for example, although now in Stage Three with a well established agent sales force, still provides compulsory credit life insurance through Edcon, as well as voluntary insurance through a variety of other partners, such as Pep.

Starting at Stage Three is difficult. Starting at Stage Three is extremely difficult, as the initiative needs to have a strong brand, a good understanding of the low-income market, an appropriate range of products, a low-cost distribution infrastructure, an agency model that incentivizes sales at low margins and effective low-cost technology that meets the needs of the low-income market. These features are ideally implemented over time, in a test and learn manner over

various stages, and are difficult to get right all at once. This approach is often used, in addition to existing strategies, when insurers start to move down market. However, many of them struggle to achieve scale and find that substantial cross-subsidization is required to serve the market using this approach.

Skipping stages. The majority of the case studies analysed (five out of eight) did not actually start in Stage One, but instead skipped directly to Stage Two. Why is this the case and how was the transition achieved?

Why do initiatives skip Stage One? A compulsory group represents the ideal captive client base for an insurer wanting to establish a microinsurance initiative. The large size of the existing group, combined with the compulsion factor, means that the insurer is guaranteed to achieve scale quickly, thereby improving its chances of sustainability. For these reasons, a compulsory group model represents the ideal starting point for a microinsurance initiative. However, gaining access to a compulsory group is difficult. An auto-enrolled group requires patronage – either from government or from a private service provider – which relies on substantial investment by that party. A mandatory or opt-out group model could be restricted or prohibited by regulations. Consumer protection and value issues may also be concerns, meaning that pre-existing client groups may not be willing to enforce compulsion, on members and insurers may not want to have this aspect associated with their brand. Furthermore, given the attractiveness of providing insurance to a compulsory group for an insurer, there will be substantial competition for any compulsory group that does exist.

How are initiatives able to skip Stage One? The benefit of compulsion is that scale is achieved quickly, which improves the likelihood of sustainability. In some cases, this can be achieved without compulsion. External drivers, such as latent demand and subsidies (including cross-subsidy³⁴), play a central role in ‘replacing’, or partially replacing, a required internal driver to increase take-up. Cross-selling in Stage Two can also result in potentially skipping the initial stage. Critical here is a convenient sales mechanism, an affordable product and a strong sales push, which can partially replicate the compulsion aspect of Stage One to achieve rapid high take-up at low cost.

Moving closer to the client through the stages. As an initiative moves through the stages, it becomes closer to the client. When the insurance is distributed through a third party aggregator, that aggregator has the direct relationship with the client and therefore ‘owns’ the customer. By moving through the stages, the insurer gains greater control over the client and therefore also reduces the risk of losing its client to the intermediation channel. Moving closer to the client has the further benefit of enabling the insurer to have greater control over who is insured. This reduces risk and allows for improved access to information about the client. The result will often be improved pricing and reduced costs, since profits no longer have to be shared with another party.

Interplay between latent demand and sales push. At least some level of latent demand is necessary for the sale of insurance on a voluntary basis, even if it is sold alongside another product. The degree of latent demand will determine how strong the sales push needs to be in order to achieve scale successfully. The lower the level of latent demand, the greater the need to push during the sales process. AVBOB, for example, was able to skip the compulsion of Stage One due to the high level of latent demand for funeral cover in the South African market. Hollard’s partnership with Edcon succeeded in providing credit life at scale on a voluntary basis. Lower levels of latent demand for the product were overcome by ensuring that the product was affordable, very convenient and aggressively sold. This last factor proved extremely important and the insurance product was offered to Edcon credit clients a minimum of three times throughout the credit application process.

The role of subsidy and cross-subsidization. Direct subsidy from the state or donors, or cross-subsidization from another area of the firm, can enable an initiative to skip the initial stage. This is because the guaranteed financial support reduces the imperative for the initiative to reach scale immediately in order to remain sustainable. The guaranteed funding allows the initiative the luxury of time so that it can steadily expand its consumer base without having to become profitable quickly in order to survive.

Regulation as enabler of progression through stages. Although regulation was not identified as either a major barrier or enabler of scale in the case studies, certain types of regulation may enable or inhibit the development of initiatives. Regulation varies across the different stages. In many cases, it is the absence of regulation that is important in allowing the development of microinsurance initiatives at the various stages:

³⁴ Governments or donors can offer subsidies. Insurers moving down market often cross subsidize low-income products which can act in a similar way, so as to remove the requirement to achieve scale quickly. Free or freemium products offered to improve client loyalty also include an implicit subsidy.

- Stage One is reliant on compulsion, so any regulation restricting mandatory insurance products would be a barrier to the development of Stage One initiatives.
- Stage Two entails the distribution of insurance through multiple channels and intermediaries. Therefore regulation restricting which entities can distribute insurance would inhibit the development of initiatives in Stage Two. Concessionary requirements, which make explicit provision for the distribution of insurance through non-traditional channels, would act as an enabler of initiatives in this stage.
- Stage Three sales are through agents and therefore agent-specific regulations can act as either a barrier or an enabler for initiatives in this stage. Strict agent requirements regarding qualifications and training, such as in South Africa's FAIS³⁵ regulations, can act as a barrier to the development of agents as a distribution channel. However, reduced requirements for microinsurance-specific agents, as found in Mozambique's microinsurance regulations,³⁶ could enable the development of agent sales forces. This is achieved by allowing these agents additional responsibilities, such as premium collection and claims processing, and can also reduce costs for the insurer, thus increasing the viability of agents as a distribution channel.

³⁵ The Financial Advisory and Intermediary Services Act in South Africa requires agents to pass various exams before they are allowed to offer advice. The distinction between advice based and non-advice based sales is a grey area, resulting in many insurers opting to either provide no information during the sales process or appointing agents who are qualified to offer advice. This adds substantially to the cost. Models such as CLIS, which sells a simple product through a pawnshop, would be unlikely to evolve in South Africa (Bester, et al., 2006, p. xv).

³⁶ See "Access to Insurance in Mozambique" by Chamberlain et al. Forthcoming.

6 > SCALE AND VALUE

Though the primary focus of this study is to investigate the drivers of scale in microinsurance, and we primarily evaluated the available information through this specific lens, we now further assess the client value considerations in the different stages of scale. It is important to recognize that any financial inclusion objective is to increase the uptake of appropriate insurance products that offer value to clients (Bester et al., 2009).

Client value refers to whether, and to what extent a product enhances the welfare of policy-holders, their families and communities. With regards to insurance, in particular, client value has the aim of reducing vulnerability through improved risk management practices, which then contribute to well-being. Valuable products are a means of accomplishing a client's goals and satisfying their essential needs (Matul et al., 2012).

Scale does not necessarily result in value. Low levels of awareness or onerous sales processes, premium collection or claims processes, could act as disincentives for clients to buy and/or use a product. A mandatory/embedded product may also have a high relative price. For many clients, this may be their first interaction with formal insurance. Positive market discovery is thus important and has two components:

- Market discovery means that consumers must be introduced to a product in a way that makes them aware of the cover offered and helps them to understand the value that insurance has for them.
- Positive discovery means that consumers must have a positive experience of the product – they must be able to claim on it and derive value from it. This results in a positive demonstration of the value of the product and builds the client and community's trust, both in the product and the industry, through the demonstration effect and by word of mouth. (Bester et al., 2009).

Measuring value. Value is a complex term requiring an assessment of the extent to which client needs are met (an evaluation of value fell outside the scope of this study). Looking purely at the claims ratios of the different case study schemes as of 2013, no trend is observed over different types of initiatives. The claims ratios generally fall in the range of 30-50 per cent³⁷. It is interesting to note that the claims ratio of the two subsidized schemes is markedly different: in the case of Waseela, the figure is 2 per cent, while NAIS's ratio consistently exceeds 100 per cent. The high claims ratio for NAIS is explained by frequent droughts in India, resulting in high claims for agricultural insurance, coupled with the automatic payout through the weather-index mechanism. Waseela's low claims ratio is largely due to low policy awareness.

Evolution of scale and value. High value products are offered across the stages. However, in the later stages of scale there is a more direct link between the client and the insurer and products are more closely tailored to the needs of the client, rather than to those of the aggregator.

- Stage One initiatives have the potential to offer high value, especially where subsidized initiatives lower the cost to the client. Low levels of policy awareness could reduce the extent to which clients can benefit from these policies, as has been the case with BISP Waseela.
- Stage Two initiatives are designed around the needs of the aggregator. This approach can offer good value, as the aggregator may have information on the clients and buying the insurance through the aggregator may be convenient for the policy-holder, while also offering cost savings. However, use of an aggregator introduces the risk that costs will increase, since profits need to be divided between more parties. Products may also be designed to meet aggregator rather than client needs.
- Stage Three initiatives should offer the most value, since the insurer sells products directly to individuals, based on how well the product meets their needs. The insurer now also has substantial information on the client, allowing it to tailor products more effectively. The sales process can further contribute to a better understanding of the product by the client, improving levels of awareness and use, and, in so doing, encouraging renewals and additional sales.

³⁷ Seven of the eight case studies gave an indication of their claims ratios.

7 > LESSONS LEARNED

Achieving scale is difficult, but it is crucial for the sustainable provision of microinsurance. The following lessons emerge from this study:

Insurers should align their scale strategy with their target group. Most scale strategies are based on mandatory sales, partnership or agency, targeting compelled groups, voluntary groups and individuals respectively. Aligning the scale strategy with the target group is more efficient and improves take-up.

Partnership is a cornerstone of scale, but incentives should be aligned. Most microinsurance initiatives achieve scale through some form of partnership. The ideal partner is one that offers resources and skills needed to effectively reach the target market, together with a trusted brand that ensures the partner will deliver on its promises to the insurer, as well as to customers. Understanding and aligning partner interests is critical to the long-term success of a partnership.

Life products are far more successful at achieving scale. Over half of the initiatives investigated achieved scale through life products. Life products speak to client needs and are often simpler and more profitable than many other products, such as health and agriculture insurance.

Mandatory products offer instant scale and can be leveraged to offer other products. Mandatory products, such as credit life, can deliver large numbers of clients instantly. This client base offers the opportunity to learn about the market and, over time, to add further voluntary products to existing and new clients. Credit life has a poor reputation in terms of value. However, this product often represents a customer's first encounter with insurance and may prove a significant launch pad for higher value products.

Government has an important role to play in achieving scale for health and agricultural products. Some 35 per cent of the microinsurance initiatives that achieved scale were supported in some way by the state. Government played a particularly significant role in agriculture and health microinsurance. Many of these schemes would find it difficult to achieve scale without government support, due to the high cost of providing this type of insurance.

Appropriate technology is essential for administration, information and communication at scale. Accurately administering and pricing a large number of policies requires effective technology. Manual systems are more time consuming, prone to error and are costly to implement for large volumes. Appropriate technology becomes even more significant when a variety of products is offered through a number of partners. Uptake and retention of policies is heavily influenced by the client experience. Frequent communication keeps the client informed and improves the tangibility of insurance, which increases the likelihood that policies will be renewed. Setting up systems to handle large volumes of clients from the outset can improve efficiency.

Tailoring products and processes to meet client needs increases uptake and retention. Clients are more likely to purchase and retain policies that offer them value. Designing products with the client in mind results in products which better meet client needs. Client surveys and complaints monitoring can provide useful inputs into the client experience, in order to inform the tailoring process.

Agency is expensive, but offers substantial benefits if distribution networks are leveraged. A number of initiatives have seen substantial increases in sales and retention levels when agents have been employed to sell products. Agents can increase take-up of voluntary products, as they offer access to information, provide the face of the insurer and build trust with clients. Agents are generally offered incentives to sell. Leveraging distribution networks by placing agents in distribution partner premises, or allowing agents to supplement earnings through the sale of other products, can reduce the costs involved.

Thinking big from the beginning. Most initiatives that achieved scale in microinsurance did not build up to scale over time. There was generally some partnership event that allowed the initiative to achieve scale very quickly. Seeking out these opportunities, and managing them properly, is the single most important driver of scale.

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9 > APPENDIX A: METHODOLOGY AND LIMITATIONS TO THE STUDY

METHODOLOGY

A pool of initiatives that have achieved scale, as defined, was identified through desktop research and consultation with various individuals involved in the microinsurance industry. Case studies were selected from this pool, according to the following criteria:

- regional representation;
- type of microinsurance product offered;
- diversity of distribution channels;
- representation of both subsidized and non-subsidized initiatives; and
- access to information/willingness of the initiative to participate.

Following the selection of the case studies to be included, information was collected using desktop research and interviews conducted with the microinsurance providers. The case studies were then analysed to identify the main factors across the initiatives that have resulted in achieving scale. Where necessary, additional desktop research was performed to address gaps in information that emerged. The detailed case studies are included in a separate paper: Thinking Big - Case Studies (<http://www.microinsurancefacility.org/publications/mp31>).

LIMITATIONS OF THE STUDY

Definition of scale. Scale is defined based on fixed volumes. This introduces a bias towards more populous countries, where scale as defined is easier to achieve. It could also introduce a tendency towards certain product types which are sold in higher volumes than others, such as life insurance, including credit life and funeral insurance.

Selection of case studies. The study cast a wide net to identify microinsurance initiatives that have achieved scale around the world. The eventual selection of the eight case studies required contact with, and approval from, the insurance providers. As such, there was an element of opportunism in the finalization of the selection, where those insurers who were contactable and willing to participate in the study were included.

Limited sample size. Based on the diverse case studies, this paper synthesizes the different factors that contribute to achieving scale. It also identifies trends and makes inferences that provide useful lessons for the industry. However, as with all studies of this nature, care should be taken in generalizing findings, given the limited number of case studies reviewed.

10 > APPENDIX B: LIST OF PEOPLE INTERVIEWED

People interviewed for the case studies:

Institution	Name	Title	Interview date
<u>AVBOB</u>	Mr Deno Pillay	General Manager: Group Corporate Affairs	23 May, 24 June 2013
	Mr Colin van Son	Group General Manager: Insurance Administration	24 June 2013
	Ms Lucia Momberg	General Manger: Insurance Administration	24 June 2013
<u>Waseela</u>	Dr Javed Abbas	Director General	20 June 2013
	Dr Irum Shaikh	Deputy Director	20 June 2013
	Dr Ayub	Deputy Director	20 June 2013
<u>State Life Insurance Company - Pakistan</u>	Mr Nadeem Bassy	General Manager	7 August 2013
	Mr Hafeez Uddin	Sector Head	7 August 2013
<u>Hollard</u>	Mr Freedom Buthelezi	Head: Retail at Hollard Life Assurance	10 June 2013
	Mr Mandla Shezi	Head: Alternative Distribution	10 June 2013
<u>CLIS</u>	Mr Jonathan Batangan	General Manager	11 July 2013
<u>Tigo Milvik (Bima)</u>	Ms Eliza Kucukaslan	Ghana Country Manager & Global Financial Reporting Manager	3 June 2013
<u>MicroEnsure</u>	Mr Peter Gross	Regional Director - Africa	21 May 2013
<u>Milvik (Bima)</u>	Mr Gustaf Agartson	Chief Executive Officer - <i>Milvik</i>	24 May 2013
<u>Tigo Ghana</u>	Mr Abdul-Nasser Alidu	Solutions Category Manager at <i>Tigo</i> Ghana	
<u>Protecta</u>	Mr Alfredo Salazar	Chief Executive Officer	18 April 2013
	Mr Enrique Chambergo	Commercial Director	24 April 2013
	Mr Jose Ernesto Bazo		
<u>Casas Bahia</u>	Desk-based research		
<u>NAIS</u>	Desk-based research		

Additional people interviewed in order to identify initiatives that have achieved scale or obtain further input on initiatives that achieved scale:

Name	Area of Input/institution
Clémence Tatin-Jaleran	Thailand
Ana Cunha	Latin America
Brandon Matthews	Ex Zurich - Latin America
Jim Roth	Leapfrog Investments
Tahira Dosani	Leapfrog Investments
Eugene Kruger	Metropolitan Life
Stefan van der Westhuysen	Old Mutual
Jody-Ann Dearham	Doves/Union Life funeral
Nishid Dosa	African Bank
Francois Grobler,	JD Group
Jaco van Jaarsveldt	JD Group
Renee Griessel	JD Group
Charlotte Tshishonga	Scorpion
Gavin Soll	Clientele Life
Hugo Louw	Clientele Life
Ben Myburgh	LipCo
Edgar Evans	Edcon
Paul le Roux	PEP
Mokale Sekhute	Hollard/ Edcon
Ferdi van Zyl	Edcon
Richard Lefley	MicroEnsure
Dennis Garand	Health schemes
John Wipf	Philippines
Michael McCord	Microinsurance Centre
Antonis Malgordis	Philippines
Mark Achaw	Ghana
Pedro Pinheiro	CNESG Brazil
John Pott	Aga Kahn Agency for Microinsurance

MICROINSURANCE INNOVATION FACILITY

Housed at the International Labour Organization's Social Finance Programme, the Microinsurance Innovation Facility seeks to increase the availability of quality insurance for the developing world's low income families to help them guard against risk and overcome poverty. The Facility was launched in 2008 with the support of a grant from the Bill & Melinda Gates Foundation.

See more at: www.ilo.org/microinsurance

