AON Affinity Brokers:

Utility and database microinsurance distribution in Brazil

Part of a series of case studies on alternative microinsurance distribution models

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Foreword

The case study presented in this focus note is one out of a series of case studies on alternative, innovative microinsurance distribution models, which have been prepared for the International Labour Organization's Microinsurance Innovation Facility. Cost-effective distribution at scale is one of the biggest challenges facing insurers in low-premium environments, where customers are typically unfamiliar with insurance products. In an effort to effectively reach as large a client base as possible, emphasis is increasingly falling on innovative new distribution models as alternatives to traditional broker and agent sales. This focus note series takes stock of these alternative distribution models as they are emerging internationally. There is no template for what qualifies as an alternative distribution model. Rather, it is the diverse, innovative and evolving nature of such models that defines them. There are, however, several common features shared across all models. For this reason, in choosing the models to be included in the case study series, we have defined alternative distribution models as those meeting the following criteria:

- *Scale through concentration*: Ability to achieve scale through targeting large client concentrations such as the non-insurance clients of retailers, cell phone companies, utility companies, etc.
- *Presence of infrastructure footprint*: When entering into partnerships with organizations with large client concentrations, alternative distribution models rely on the presence of an infrastructure footprint that is larger than what could be achieved by an insurance company in isolation. The infrastructure could be physical (e.g. brick-and-mortar-stores) or technological (e.g. a cell phone network).
- *Transaction platform*: The sales channel typically doubles as a premium collection platform, e.g. adding premiums onto a utility bill.
- *Standalone voluntary product*: The case study business models distribute voluntary insurance products sold on an "opt-in" rather than "opt-out" basis. Buying the insurance is an explicit choice by the customer, rather than an automatic addition to another product or service.

The purpose of the case studies is to review the success and development of alternative microinsurance models that have been developed during the last few years. This focus note identifies success factors as well as challenges faced in the process of innovative distribution. This contributes to a better understanding of how insurance products work in the low-income market.

1. Introduction

This case study focuses on alternative microinsurance distribution channels, an area in which Brazil[1] has seen particular innovation. The success of these distribution channels in achieving take-up has provided a blue print for more cost effective distribution and similar models have been adopted in other Latin American countries. The lessons learnt from Brazil's experiences - both failures and successes of this type of distribution – are shared in this case study.

Lessons from this case study. This case study highlights the experience of AON Affinity do Brasil, an insurance brokerage, as well as the experience of its insurance and distribution partners in the microinsurance market. It illustrates the following main themes and issues:

- The unique role a broker and/or administrator can play in the development of innovative microinsurance distribution channels.
- The successful distribution and take-up of microinsurance products through telecommunications and utility companies.
- Commercially successful microinsurance products and distribution channels may require tailoring to improve the value to clients as suggested by the currently low loss ratios and high management costs.

Methodology. This note draws on information gathered during a number of interviews with innovative microinsurance providers[2]. The information from the interviews is supplemented by publically available information on these providers and their distribution channels, such as newspaper reports, websites and annual reports. In addition, the report draws strongly on other research documents compiled by Cenfri on the Brazilian microinsurance market and on alternative distribution channels in other markets.

The products, underwriters and distribution partners reviewed in this case study were selected based on their high level of involvement in the low-income insurance market. Their level of involvement was determined from desktop research and telephonic consultation with Brazilian microinsurance experts and the insurance industry body, CNSeg.

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

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[1] Brazil was identified as a country of interest during a global scan for innovative alternative distribution models conducted by the Centre for Financial Regulation and Inclusion (Cenfri) for the International Labour Organization's (ILO) Microinsurance Innovation Facility (MIF).Other countries indentified were Mexico, Colombia, Brazil, South Africa and India.

[2] List of individuals and organisations interviewed available in section 9.

2. Positioning the distribution channel

Brazilian context[3]

Brazil is Latin Americas largest insurance market. The insurance sector in Brazil consists of 160 companies involved in one or more of the following: insurance, open-market pension products or capitalisation[4] (offering savings bonds linked to the national lottery). Total premiums collected in the insurance market (excluding open market private pension, medical insurance and capitalisation) reached R$70.5bn (US$39bn[5]) for the year ending June 2009. This corresponds to an insurance penetration rate of 2.4%, making Brazil Latin America's largest insurance market (Hougaard et al., 2010).

Significant microinsurance up-take in Brazil. It is estimated that the Brazilian microinsurance market (formal and informal[3]) provides cover to approximately 40-50m people (Hougaard et al., 2010). The typical microinsurance target population earns between US$65.1 and US$781.2 (respectively ¼ and 3 times the minimum wage). The minimum wage in 2009 stood at R$465 (US$260.4) per month. Typical microinsurance premiums range between R$2 (US$1.12) and R$50 (US$28) per month.

Distribution models

Hougaard et al. (2010) identified seven distribution channels used in the distribution of formal microinsurance and funeral[4] insurance:

- **Utility and database distribution**: Utility-based distribution (the focus of this case study) plays perhaps the most significant role in the distribution of microinsurance in Brazil. Database distribution refers to the marketing of insurance products to an existing customer base, such as the clients of utility or telecommunications companies. Insurance distribution through utilities was originally offered to clients of electricity companies to provide insurance against the damage to electrical goods by electrical surges but later evolved to include personal accident, unemployment, disability and household structure insurance after the government implemented an alternative recourse measure for utility customers affected by electrical surges, thus removing the selling point of surge cover (Jacobs, 2006).
- **Retailer-based distribution**: Retail distribution[5] refers to the distribution of insurance products through retail stores. This type of distribution usually refers to (but is not limited to) the sale of the insurance product in-store by sales staff.
- **Credit agent sales**: Credit agent, a variation of the retail-based model, refers to the sale of microinsurance products through microfinance institutions and their sales force.
- **Banking channels***:* Insurance sold through retail banks accounts for the majority of life microinsurance in Brazil. Banks either provide insurance companies with client information, or allow third party brokers to sell insurance from their branches (an example of this is Banco Brandesco).

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[3] This section draws heavily on research conducted by Hougaard et al. (2010). Please visit www.cenfri.org to download this document.
[4] It is common in Brazil for insurers to add a lottery component to their microinsurance offering to incentives take-up. The workings of capitalisation is covered in greater detail later in this case study.
[5] Exchange rates are calculated using 6 month average interbank exchange rate where R$1 = US$0.56.
[3] Informal insurance refers to insurance provided illegally, or not regulated by the Brazilian insurance regulatory authorities
[4] Funeral insurance sold through funeral houses are also typically considered microinsurance.
[5] see Cenfri study on retail distribution models in Brazil

- **Collective bargaining and common bond***:* Groups with pre-existing common bonds endorse a specific insurance product and each member is then free to decide whether to take up the insurance product or not. In some cases, the endorsement may also amount to a collective decision whereby all members are compelled to take the product.
- **Door-to-door sales***:* Another delivery channel is the face-to-face sales conducted by broker representatives. Although, by regulation, a broker is allowed to intermediate products of multiple insurers, brokers (and their representatives) generally sell only insurance and represent only one insurer.
- **Funeral assistance channel***:* Funeral assistance distribution through funeral homes or private cemeteries currently takes place outside of the formal definition of insurance. In this distribution channel, all functions are centralised in the funeral home or private cemetery. It provides the funeral service and employs a commissioned sales force to sell its funeral cover, mostly through door-to-door sales techniques.

Affinity distribution contributes significantly to total microinsurance market. Microinsurance distribution through affinity channels (retailers, utilities, telecommunications and database[6]) represents 10m individuals. Considering that the estimated size of the microinsurance market is 40 – 50m lives covered, affinity business could represent as much as 25% of microinsurance coverage in Brazil.

Model overview

This case study focuses on a utility and a database distribution channel and, more specifically, the unique role of a broker, AON Affinity do Brasil, in the development of these channels. The case study also maps the roles of the underwriters (QBE and ACE) and the distribution partners: the utility company AES Eletropaulo, and telecommunications company, Brasil Telecoms.

A short summary of the distribution partnership structure is depicted below, in Figure 1.

[6] Outbound call centres or mail advertising targeted to the clients of a particular organisation. This organisation supplies the clients' information through providing them with a client database.

Figure 1: Representation of the database sales channel[7]

Source: Microinsurance in Brazil: Towards a strategy for market development. Hougaard et al., 2009

AON Affinity conceptualises and develops the product in negotiation with the distribution partner, referred to as the "sponsor[8]". It mines the sponsor's database for marketing and segmentation information and uses this as a basis for product development and to attract insurers to underwrite the product. AON is responsible for the marketing and provides the labour force. The sponsor provides the database, does basic administration and facilitates premium collection (by adding it to the utility/telephone account). Finally, the insurer underwrites the risk and may contribute to product development.

3. AON Affinity do Brazil

Background

AON Affinity Brokers is part of a large multinational corporation. AON Corporation, a global leader in risk management and human capital consulting, was founded in its earliest form in 1919 and took on the name AON in 1987. AON employs approximately 36,000 employees and has a physical presence in more than 120 countries. In 2009 Aon Corporation generated revenue of US$7,631 bn and derived a net income of $1,462 bn. AON Corporation focuses on brokerage services, consulting services and consumer insurance underwriting. It provides these services through four divisions: AON Affinity, AON Benfield[9], AON Consulting and AON Risk Services[10].

AON Affinity do Brazil's success led to the establishment of AON Affinity Latin America. In their Brazilian operations, AON employs over 700 employees providing consultancy services,

[7] "c" denotes customer.

[8] The distribution partner is referred to as a sponsor as it provides (or sponsors) the broker and insurer with its client data information.

[9] AON Benfield operates as a reinsurance broker.

[10] AON Risk Services specialises in providing consulting services in corporate risk management, insurance brokerage and reinsurance.

administration, risk management and insurance programmes. AON Affinity do Brasil started operations in 1998 focusing on mass marketing[11] of insurance products through the development of Business to Business (B2B), Business to Customer (B2C) and Business to Business to Customer (B2B2C)[12] insurance distribution models. Starting in 2005, AON expanded its Brazilian Affinity operations to six[13] other Latin American countries with the established of AON Affinity Latin America.

AON follows a partnership approach. AON approaches the mass market channel through the management of client databases[14] and forming partnerships with utilities, retailers, financial institutions, affinity groups and insurance companies. Table 1 (below) lists all the insurance companies, retail stores and utilities that AON currently partners with.

[11] Mass marketing refers to the marketing of insurance products to a larger (lower-income) market not traditionally served by insurance products.
[12] The use of a Business to Business to Consumer (B2B2C) model refers to the distribution of insurance through a third party or sponsor. In this case study, we are considering the B2B2C in greater detail.
[13] Mexico, Argentina, Peru, Colombia, Chile and El Salvador
[14] Database distribution refers to the marketing of insurance to an existing customer base, such as the clients of utility or telecommunications companies

Insurers[15]	Utilities	Retailers
ACE Assurant Bradesco Vida e Previdencia Brasil Assitencia **QBE** Veru Cruz Sulacap Cardif Allianz Seguros Virginia Surety Chubb Seguros Indiana Seguros Mitsui Porto Seguro Sulamerica Azul Seguros Liberty Martima Executivos Yasuda Minas Brasil.	Acueduto Bucaramanga Acueduto de Baranquilla, **AES Eletropaulo (AES El Salvador)** Bandeirante **Brasil Telecom** Cataguazes Leopoldina Celb| Borborema Celesc Cemig Cenf|Nova Fiburgo CGE Chilquinta Coelce Coelba Cosern CPFL (Jaguariuna, Leste Paulista, Lesta Mooca, Piratininga, Santa Cruz do Sul and Sul Paulista) Energipe Enersul Escelsa ETB Grupo Rede Light Luz del Sur Movistar Multiservicios Pereira	Berlanda Carsa Eletro Shopping Extra Eletro Gaston La Curacao Obino Pão de Açúcar Paquetá Paquetá Esportes Ricardo Eletro Ripley Salfer

Table 1: List of AON Affinities insurance, utility and retail partners
Source: AON Affinity (2010)

[15] Find insurers and utility companies discussed in the case study in bold.

AON Affinity's product offerings are specifically focused on the low-income market. AON Affinity specifically targets the "mass market" which they define as individuals contained in the C, D and E[16] Brazilian Institute of Geography and Statistics (IBGE[17]) categorisation of socio-economic classes[18]. This target market corresponds with the typical Brazilian microinsurance target market. The typical Brazilian microinsurance target market ranges from 1/4 to 3 times the minimum wage, i.e. individuals who earn between R$116.25 (US$65.1) and R$1,395 (US$781.2) per month.

AON's distribution channels are positioned to reach the low-income market. Utility distribution models give AON and the insurance companies they partner with access to up to 98.2% of Brazilian households[19] (IBGE, 2008). This positions utility channels favourably as large-scale distributors and premium collection vehicles for microinsurance products. Outside Brazil, examples exist of utility companies facilitating the deduction of multiple services (other than insurance) from the utility bill. However, this practice remains limited in the Brazilian context[20]. Additionally, partnerships with a large retailer and a leading telecommunications company provide AON with a unique position to reach the under-served.

AON plays the role of both broker and administrator. In many of its product offerings, AON goes beyond the role of a traditional broker to fill a role better labelled as administrator. By assessing the needs of the clients of a specific sponsor/channel, AON plays a critical role in the product design and distribution channel development processes. In addition, AON renders marketing and administrative services such as call centres, client management and claims processing.

AON develops and invests in distribution partners. AON has a specific strategy with regard to the development of retail channels, treating distribution partners differently based on their previous exposure to insurance distribution. Partners who are new to insurance distribution will often agree to the development of a "financial protection" policy. These types of policies cover the client's obligation towards the distribution partner in the event of unemployment, disability and/or death. Once the distribution partner has had this initial exposure to insurance distribution, AON proposes the development of a more complex insurance offering, which usually involves household structure, life insurance and hospitalisation components.

[16] An A-E (with A being the highest socio-economic class and E the lowest) is a commonly used welfare measure in Brazil.

[17] IBGE is a government agency, housed in the Brazilian Department of Planning, Budget and Management , responsible for statistical, geographic, cartographic, geodetic and environmental information in Brazil.

[18] Socio-economic classes are defined not based on income, but rather a range of socio-economic variables such as asset ownership and education.

[19] Data based on the 2007 National Sample Household Survey (PNAB)

[20] Industry consultation revealed one utility company providing customers with the opportunity to pay for goods using their utility bill.

4. AON Affinity's partnership with QBE and Brasil Telecom

The QBE-AON partnership is focused on affinity business. QBE and AON have a strategic partnership in affinity business through three channels: retail, utility and telecommunications companies. The partnership dates back to the start of QBE's operations in the Brazilian market.

AON provides QBE with existing or pre-negotiated distribution channels and product offerings. In return, QBE offers assistance with final product design, pricing, underwriting and administration. As both parties have a vested interest in the success of the various products, AON and QBE work hand-in-hand to align strategy and ensure quality.

In late 2006, QBE and AON launched the Renda Garantida (Gauranteed Income) product. This is one of two insurance[21] products underwritten by QBE and marketed to Brasil Telecom customers. Renda Garantida, one of two products focused on in this case study, is an individual or family hospital insurance product.

About QBE

QBE Brazil Seguros is a small niche insurer. As part of its expansion-by-acquisition strategy, QBE entered the Brazilian market in December 2001 with the acquisition of Reliance National Brasil Seguros SA to form QBE Brasil Seguros S.A. It has focused on general insurance since November 2006, and is licensed to operate as a general insurer in all eight regions, covering the whole country, as designated by the Brazilian insurance supervisor, Superintendencia de Seguros Privados (SUSEP)[22]. In 2009, QBE had an estimated 1.7m customers in Brazil (Jarzynshi, 2010).

As part of its strategy to focus exclusively on direct sales and affinity business, QBE discontinued the sales of non-affinity policies in 2006. Affinity business in the Brazilian context refers to the sale of insurance products by marketing to the existing client bases of retailers, financial institutions, mobile operators and the like through direct mail or call centres (Hougaard et al., 2010). This strategy led to the growth of QBE's affinity business, which collected R$63m (US$35.3m) in gross premiums for the financial year ending 2009.

QBE follows a partnership approach to distribution. QBE offers insurance through selected distribution partners including telecommunications companies, electricity distribution companies, retailers, banks and credit card companies (QBE, 2009). The company currently has over 30 distribution partners of which Brasil Telecom is the largest (Jarzynski, 2010). The main product categories delivered through the QBE distribution channels include personal accident, temporary disability, hospitalisation, unemployment, travel insurance, funeral and household structure insurance. Appendix A lists three QBE insurance products brokered and administered by AON and distributed through retail, utility and telecommunications companies.

[21] The second insurance offering is Eletro Gaurantee that provides technical assistance, repair and/or replacement of out-of-warranty appliances.

[22] Superintendencia de Seguros Privados is the private insurance superintendent of Brazil. SUSEP is an autonomous institution with close ties to the Ministry of Finance. SUSEP has divided Brazil's 26 states and one federal district into eight regions, each requiring separate minimum capital bases. A full license enabling an insurance company to operate throughout the country will not total less than R$15 (US$8.4)m.

About Brasil Telecom

Brasil Telecom is a large mobile and landline telecoms provider. Brasil Telecom was founded in 1998 as part of the privatisation of state-owned telecommunication monopoly, Telebrás[23]. In 2009, Brasil Telecom was acquired by the largest fixed-line operator in Brazil, Oi[24] (formally known as Telemar Norte Leste S.A). The company is licensed to operate in ten states in the South West and Mid-West regions and three states in the Northern region. It serves 8m landline customers, 7m mobile phone customers and 2m internet subscribers (Hoover, 2010).

Brasil Telecom acts as sponsor and *estipulante* of QBE. The role of sponsor refers to the provision of client information to the broker, AON Affinity, in order to assist in the development and sales of the product. The role of *estipulante* refers to the legal relationship between Brasil Telecom and QBE. This relationship, as defined by the Braziian Insurance Act (Decree-Law 73/66), allows the *estipulante* to act on behalf of the insurance company. This enables Brasil Telecom to collect premiums on QBE's behalf.

Product development process

AON Affinity and QBE were jointly responsible for the product development process. AON Affinity negotiated with the sponsor, Brasil Telecom, and designed the product based on an assessment of the needs of the client base[25] (Brasil Telecom customers). The needs analysis included a targeted pricing analysis (an analysis of the elasticity of demand). At this point, QBE also took responsibility for validating the target price, establishing the limits and sub-limits to the product coverage and exclusions (the actuarial work) and testing the product before rolling it out to the whole database through the use of an out-bound call centre. The table below gives a brief summary of Renda Garantida. The relationship between the underwriter, broker and *estipulante*/sponsor takes the form as depicted in Figure 1 (see page 7).

[23] Telebrás gave way to four fixed-line (three local and one long distance) telephone companies: Brasil Telecom , Telemar (now Oi), Telefonica and Ebratel.
[24] Portuguese for Hi
[25] Also referred to as database.

Underwriter	QBE
Broker	AON Affinity
Capitalizations company	Sul América Capitalização S/A
Product name	Renda Garantida
Launch date	2006
Premium	Individual: R$7.90 (US$4.42) per month Family: R$12.90 (US$7.22) per month
Cover	Individual plan: • Life and personal accident cover of R$1,500 (US$840) • Hospitalisation cover of R$150 (US$84) per night to a maximum of R$54,750 (US$30,660) (365 days) Family plan: • Life and personal accident cover of R$1,500 (US$840) per family member (family members under 14 remuneration is limited to cost of funeral) Hospitalisation cover of R$150 (US$84) per night to a maximum of R$54,750 (US$30,660) (365 days)
Sponsor/*Estipulante*	Brasil Telecom S/A (Telecommunications Company)
Capitalisation benefit	1 x R$5,000 (US$2,800) per month
Enrolment channel	Outbound call centre

Table 2: Product information for Renda Garantida

Source: Compiled by the author from various sources

Brasil Telecom customers are given the choice between individual and family cover. An individual policy premium of R$7.90 (US$4.42) per month entitles the Brasil Telecom customer to life and personal accident cover of R$1,500 (US840) and a daily in-hospital payout of R$150 (US$84)[26]. The family policy premium of R$12.90 (US$7.22) per month covers the Brasil Telecom customer, spouse and children[27]. The policyholder is eligible to purchase the insurance product only if they are a Brasil Telecom customer between the ages of 18 – 65 when first entering into the insurance agreement.

Renda Garantida is not licensed as a medical insurance product as QBE is not licensed by the National Agency for Supplementary Health (ANS) to conduct medical insurance business. Rather, it is positioned as a group life, personal accident and cash indemnity (random events)[28] product. Any and all payments are made directly to the client, not to a health care provider.

*Capitalisation benefits are offered to incentivise take-up***.** In addition to the life insurance and in-hospital payouts, the product offers policyholders the opportunity to win R$5,000 per month through a lottery ticket component that is added to the cover. This is made possible through capitalisation. Incentive capitalisation[29] plans are a type of savings bond linked to a lottery draw. In the case of microinsurance products, capitalisation serves as an in-life benefit to policyholders. Insurance companies buy the right for policyholders to participate in a lottery by placing a deposit with one of 12 registered capitalisation companies.

Innovation in premium collection. The product is offered to Brasil Telecom customers through an outbound call-centre, operated by a Third Party Administrator (TPA). The TPA makes use of the AON Affinities information technology (IT) platform[30]. Brasil Telecom shares its client information in database format with the broker, AON Affinity. AON and QBE are responsible for the management of the data and the out-bound call centre, directing the sales effort towards a pre-selected target market, identified from the client database (Baptistini, 2010). Clients are offered the option of individual or family cover and have to authorise the deduction and billing of the insurance premium over the phone. During the enrolment process, policyholders are required to confirm their identity, age and address. The insurance premium is added to the total of the client's Brasil Telecom bill, but recorded as a separate line item.

The client is insured against death from any cause from the first day on which the premium is paid with their telecom bill. However, a waiting period of 15 days applies to hospitalisation cover.

AON assists in the administration and claims process. AON Affinity assists QBE with the administration and claims process through a dedicated administration unit housed within the AON offices[31]. AON is given the power to approve claims—up to a maximum threshold.

[26] With a limit on the number of days an individual will be covered in the event of hospitalisation (i.e. maximum of 365 days per year).
[27] Children (biological and legally adopted) are covered to the ages of 18 or until 24 if the child is at university or any age if the child is disabled.
[28] As part of the product registration and reporting requirements of SUSEP, an insurance company has to record premium collection under 79 pre-defined product line categories, of which random events is one.
[29] Four types of capitalisation plans exist: traditional, scheduled purchase, popular and incentive
[30] In effect, the TPA only provides human resource and CRM as management and IT systems are provided by AON.
[31] Administration is conducted by AON staff

However, by law, QBE has to approve and make all final payments. Payments are made either directly into the bank account of the beneficiary or by cheque.

The documentation required to make a claim differs based on the nature of the claim. The death of the policyholder, spouse or child would require a different set of documentation than would be required for hospitalisation. Typically, documents in the case of death include the death certificate, a copy of the insurance certificate, a copy of the identification document issued for taxation purposes and the state-specific identification document (CPF[32] and RG[33]), a copy of the marriage certificate, proof of residence and, lastly, a telephone bill as proof of payment. The typical documentation required in the case of hospitalisation includes: a copy of the insurance certificate, a copy of the client's CPF and RG, a statement detailing the hospital treatments and the number of nights spent in the hospital, a marriage certificate and a claim notice completed by a physician.

Commission structure. The distribution partner, Brasil Telecom, receives a commission relative to total amount of premiums collected. The out-bound call centre staff receives a commission based on sales performance and other quality indicators (Jarzynski, 2010).

*Renda Garantida has experienced significant take-up***.** Renda Garantida is QBE's best performing product when measured by the number of policyholders. More than 600,000 Brasil Telecom clients have enrolled for the product since its launch in 2006 (QBE, 2009). The split between family and individual cover is 60% and 40%, respectively. Without providing exact figures, QBE management has indicated high levels of policy persistence, and has confirmed that, while development and management of the distribution channel is relatively expensive, the product remains profitable.

5. AON Affinity's partnership with ACE and AES Eletropaulo

AON Affinity and ACE have driven the development of the affinity market in Brazil. AON and ACE entered their first affinity distribution partnership in 1998. Both ACE and AON's management consider their partnership to be the "leading force" in the development of affinity business in Brazil (Baptistini, 2010).

ACE management estimates that AON-brokered utility distribution contributes 25% of their total affinity business (Pereira, 2010). This translates to approximately R$65m (US$36.4m) net collected premiums. The share of ACE Affinity businesses brokered and/or administrated by AON has decreased in line with a strategy by ACE to diversify its distribution channels (Meneghin, 2010).

In 1999, ACE and AON launched Super Proteção Premiada (Super Premium Protection). This is one of two insurance[34] products underwritten by ACE and marketed to utility customers. Super Proteção Premiada is a bundled insurance offering providing unemployment, personal accident, disability and household structure insurance to AES Eletropaulo customers.

[32] The Brazil federal identification number is the CPF (Cadastro de Pessoas Fisicas) issued for taxation purposes.
[33] RG (Registro Geral) issued by the Identification Institute of each Brazilian state.
[34] The second insurance offering is Eletro Gaurantee that provides technical assistance, repair and/or replacement of out-of-warranty appliances.

ACE Background

ACE Seguradora S.A is part of a large multinational corporation. The ACE Group is a global commercial property and casualty insurance organisation with a physical presence in 53 countries and commercial and individual customers in more than 170 countries. With nearly US$78bn in assets and more than US$19bn of gross written premiums in 2009, the ACE Group is one of the largest insurance organisations worldwide. The company started operating in Brazil in 1920 and is licensed to operate in both life and general insurance.

ACE Seguradora falls under ACE Latin America, founded in July 1999 following ACE Limited's acquisition of CIGNA's international property and casualty businesses, and comprising all ACE's business operations in the region, including those in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico and Puerto Rico. ACE Seguradora S.A. has a dedicated mass market and affinity business accounting for half of the R$524 (US$293.4)m gross premiums collected for ACE Brazilian operations (Pereira, 2010). The affinity business is split into four divisions:

1. Partnerships with **financial institutions**. These partnerships typically allow ACE access to the financial institutions client database which is then linked to a direct mail and outbound call centre marketing exercise. The types of products distributed through these channels include personal accident, credit life and unemployment insurance.
2. Partnerships with **retail stores**. These partnerships typically involve direct mail, outbound call centres and in-store sales. The types of products distributed through these channels include personal accident, asset insurance and unemployment insurance.
3. Partnerships with **utility companies**. These partnerships involve double billing[35] and outbound call centres. The products distributed though this channel are bundled personal accident, unemployment and household structure insurance.
4. **Speciality channel** partnerships. Speciality channel partnerships can take place with an array of institutions and/or products. The main difference between speciality channel partnership and other ACE affinity channels (those mentioned in 1 – 3) is that ACE, rather than the distribution partner, manages the premium collection process.

ACE's insurance offerings brokered by AON Affinity are limited to partnerships with utility companies and are comprised of two microinsurance products. Appendix A describes the distribution channel, premiums and cover levels for both insurance policies. This case study considers the microinsurance offering distributed through AES Eletropaulo (Super Proteção Premiada) in more detail.

About AES Eletropaulo

AES Eletropaulo, a subsidiary of US-based Fortune 500 Company, AES Corporation, has approximately 5.8m customers in 24 municipalities in the metropolitan area of Sao Paulo. The company began operations in 1999 with the acquisition of a division of the dismantled incumbent monopoly[36], Eletropaulo.

[35] Double billing refers to "mail shots". Individuals are sent the offering through the postal services along with their utility bill.
[36] The dismantling of Eletropaulo was part of the Project for Restructuring the Brazilian Electric Sector (RESEB) in an attempt to improve competition by providing a level playing field for competitors. The sales followed the enactment of Law 9648/98.

As in the case of Brasil Telecom, AES Eletropaulo acts as *estipulante* of ACE allowing AES to collect premiums on behalf of QBE.

Product development process

AON Affinity and ACE were jointly responsible for the developing the product. AON Affinity identified the distribution channel, AES Eletropaulo, analysed the client database to assess the needs of the clients and analysed the elasticity of demand in order to arrive at a target price. In turn, ACE was responsible for establishing cover and exclusion limits and sub-limits. The product was launched in 1999.

The table below gives a brief summary of Super Proteção Premiada, followed by a more detailed discussion. The relationship of the underwriter, broker and *estipulante*/sponsor takes the form as depicted in Figure 1 on page 7.

Underwriter:	ACE
Broker:	AON Affinity and SCS Salix Corretora de Seguros Ltda[37]
Product name:	Super Proteção Premiada
Launch date:	1999
Premium:	R$4.99 (US$2.79) per month
Cover:	Financial protection against involuntary unemployment and temporary disability: • Payout equal to electricity bill (max of R$80 (US$44.8) per month) for up to 4 months. Pharmaceutical discount at selected drug stores: • Discounts of up to 25% on selected medicines at approved pharmacies[38]. Financial protection against permanent disability and death (from any cause): • Payout equal to electricity bill (max of R$80 (US$44.8) per month) for 12 months. • Family will receive 12 shopping vouchers over a period of one year to the value of R$100 (US$56) each. Household structure and content insurance against fire and lightning: • Cover of R$30,000 (US$16,800) in case of fire and lightning. Emergency services: Plumber, electrician and locksmith
Sponsor/Estipulante:	AES Eletropaulo (Utility)
Capitalisation benefit:	4 policyholders will win R$ 2,500 (US$1,400) each, every month
Enrolment channel:	Double billing and inbound call centre[39]

Table 3: Product information for Super Proteção Premiada

Source: Various sources

[37] In Brazil it is customary to work in partnership with local brokers; they can be included in the project as sub-brokers or co-brokers. SCS Salix Corretora de Seguros Ltda's role is to assist AON as defined in their agreement.
[38] Selected pharmacies include chain stores Drogasil, Drogaria Sao Paulo and Drogao e Pague Menos
[39] Double billing refers to "mail shots". Individuals are sent the offering through the postal service along with their utility bill.

AES Eletropaulo customers between the ages of 18[40] and 70 are given the option of enrolling for the individual policy product that includes life, personal accident, unemployment, disability and household structure cover. In addition to this cover, policyholders are also entitled to pharmaceutical discounts and selected emergency services.

One insurance policy covers multiple risk events structured around financial protection coverage[41]. The insurance cover entitles the policyholder to the full payment of his/her utility bill (to a maximum of R$80 (US$44.8) per month), for up to 4 months, in case of involuntary unemployment and/or disability[42,43]. In case of death (from any cause) and permanent disability, the utility bill will be paid for a period of 12 months (subject to the same maximum of R$80 (US$44.8) per month) and the beneficiaries will receive 12 shopping vouchers[44] to the value of R$100 (US$56)[45] each. The policyholder's house is also insured against fire, lightning and/or explosions to a maximum value of R$30,000 (US$16,800).

In addition to the insurance cover, policyholders are entitled to discounts on certain pharmaceutical products at selected pharmacy chain stores as well as 24-hour emergency plumber, electrician and locksmith services. These emergency services include labour and material cost up to R$60 (US$33.6) per visit (maximum of 2 visits per year).

Lastly, as in the case of Renda Garantida, Super Proteção Premiada policyholders are entitled to a lottery ticket which enters them into a monthly lottery draw. Each month four policyholders will win R$2,500 (US$1,400) each.

*Targeted postal advertising with premium collection facilitated by AES***.** AES Eletropaulo customers are offered the insurance policy through an advertisement sent with their utility bill ("double billing") to their postal address[46]. Market conduct regulation (Consumer protection code, Article 31[47]) dictates that the insurance offering should be clearly distinguishable from the utility contract. Once the individual has decided to take up the insurance product, he/she can do so by phoning a toll-free number[48] provided in the brochure or by signing up online. Once the individual is enroled, the insurance premium is recorded on the utility bill as a separate line item and added to the total amount due by the client. Cover commences within 24 hours of the first payment[49] (i.e. first payment of utility bill after subscribing to the insurance policy). Cover is suspended 30 days after any missed payment and no grace period is provided.

AON assists in the administration process. AON Affinity manages the administration and claims process through a dedicated administration unit housed within the AON offices. It should be noted that ACE, as part of a larger strategy to internalise administration of insurance policies, has internalised some aspects of the administration process. The

[40] Teens under 18 who are legally emancipated may also join the plan.
[41] Financial protection policies within the Brazilian setting are structured to pay the sponsor in the event the policyholder (and client of the sponsor) loses his income and might not be able to meet his obligations to the sponsor.
[42] In the case of involuntary unemployment and disability a grace period of 30 days from date of purchase to date of cover applies.
[43] This insurance cover becomes active only after the 15th day of the risk event occurring.
[44] One shopping voucher per month for one year
[45] Product is marketed as shopping vouchers but paid into the current account of the beneficiary
[46] The insurance policy is only offered via this distribution channel.
[47] This regulation was to be applicable to utility companies by a September 2009 civil ruling in the Court of the State of Rio de Janeiro.
[48] This call centre is out-sourced to a third party but managed by AON.
[49] A waiting period of 30 days applies to cover for involuntary unemployment and temporary disability.

rationale for internalising administration is to ease the burden associated with the reporting of information to the insurance regulator (SUSEP) as it is easier to report on information collected and managed internally.

*Claims process and payments***.** Individuals can make a claim by contacting a toll-free number[50] and providing the relevant documentation. In the case of involuntary unemployment and/or temporary disability, the claim is paid directly to the utility company and credited to the client's utility bill. In the case of another claim, the client is compensated directly, either through bank deposit or cheque.

The documentation required to make a claim differs depending on the nature of the claim. Typical requirements for the household structure claim is a copy of the policyholder's identification document issued for taxation purposes and the state-specific identification, a letter communicating the risk event in detail (containing proof of full address), a technical report identifying the cause of damage, quote for repair/replacement of assets, a declaration of the existence of other insurance products and a certificate from the Fire Department (in case of fire). In the case of death, the same documentation is required as with Renda Garantida; however, cover is only provided for the policyholder.

The take-up for double billing has been lower in recent years. Double billing take-up has decreased in recent years. In the early years of this type of advertising (the product was first launched in 1999) the take-up or "conversion rate" (the number of people who receive the mail shot and then take up insurance) decreased from between 10- 12% to the current 4%.

The utility channel is remunerated in two ways. AES Eletropaulo receives a monthly fee for facilitating the billing (*pro-labore*) and an "upfront fee" in order for AON to explore the channel before developing the product (at this point AON receives access to the client database).

[50] Call centre functions are outsourced to a TPA. TPA makes use of AON Affinity's IT platform.

6. Distribution summary

Before concluding, it is useful to revisit the stakeholders and their roles in the various distribution channels. Figure 2 (below), replicates Figure 1 with the addition of a summary of roles depicted on the right.

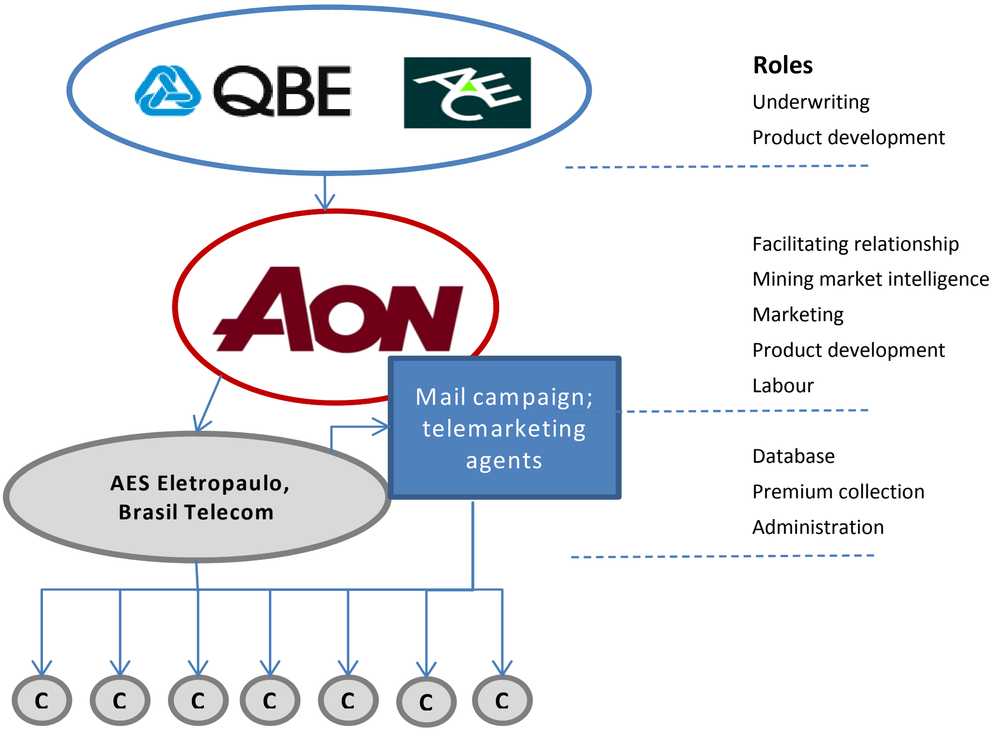

Figure 2: Representation of the database sales channel

Source: Microinsurance in Brazil: Towards a strategy for market development. Hougaard et al., 2009

Underwriters are involved in affinity business beyond their AON partnership. The interests of the underwriters, ACE and QBE, in the affinity insurance business stretch beyond AON Affinity. Other affinity distribution channels provide insight to the partnership. The unique skills that ACE and QBE have acquired in this environment allow for effective pricing, product development and strategic alignment with the distribution partners.

The role of the broker is the central theme in the innovation story. AON Affinity plays a unique role in the distribution partnership—one not usually fulfilled by a broker. AON facilitates the relationship between the distribution partner and underwriter and analyses available client information in order to develop a suitable product offering. It also provides marketing strategy and takes responsibility for the execution of that strategy. Lastly, AON provides the necessary labour and IT systems for the third-party administrator (or TPA).

The sponsor provides unique access to clients. Utility and telecommunications companies offer unique access to many low-income individuals. In addition, the payment system provided by the utility companies allows for the low-cost collection of premiums.

7. Conclusions

The Brazilian microinsurance market has led other countries in achieving microinsurance take-up. The reason for this success could be due to the following factors as highlighted in this case study:

One insurance product covers multiple events. The bundled nature of the various insurance covers (e.g. life, personal accident, unemployment and household structure and content insurance in one product) increases the perceived value of the insurance product to the client as it offers a “one-stop shop” for the clients’ risk insurance needs.

Unique access to low-income individuals through a payment mechanism. Within the Brazilian market, access to low-income individuals may not be as expensive as in other developing countries. This is due in part to the payment infrastructure created by utility and telecommunications companies, which offers close to universal coverage. By comparison, only roughly 43%[51] of Brazilian adults have bank accounts.

The innovative use of in-life benefits promotes tangibility and attracts customers. The use of in-life benefits such as discounts on pharmaceutical products, lottery tickets and emergency assistance, help create a more tangible feel to an often unfamiliar insurance product. In addition, pure risk coverage is advertised in terms of tangible goods as opposed to cash payouts (e.g. shopping vouchers are paid as cash into beneficiaries’ accounts but are advertised as grocery vouchers).

Data is used in innovative ways to identify the microinsurance target market. Insurance companies and brokers like AON use sponsors’ client information to identify key target markets and to design, price and market microinsurance products to these individuals.

Large multinational companies are involved in the distribution partnerships. The stakeholders responsible for microinsurance development and distribution in this case study are all part of large multinational companies. This has aided in the development of the channel because the parties have been able to afford to experiment with the product and bear the brunt of initial losses. Additionally, these companies have applied what they have learnt from their Brazilian experience to extend similar microinsurance products to other parts of the world (e.g. AON Affinity Latin America).

The distribution channel was developed by the broker, not the insurance company. In the examples above, the broker (AON) was responsible for the development of the distribution channel as opposed to the insurer. The broker has a dedicated team negotiating affinity channels and creating product solutions underwritten by various insurance companies. “Learning from doing” allows AON to negotiate relationships more effectively than most insurance companies.

The insurance policies are designed to incentivise distribution partner participation. Utility and telecommunications companies are not only interested in distributing the product because of the financial reward. They are also interested because these policies ensure persistency of bill payments by their own clients in the case of a loss of income (e.g. the

[51] Based on a World Bank study of 2,000 urban adults in 2002 (World Bank, 2005)

insurance policy covers the utility bill or telecommunications bill of an individual who loses his income).

However, there are some indications that the products offer low value to the policyholders:

Very low claims ratios. Low claims ratios of affinity distributed/microinsurance products possibly indicate that the product either does not meet the needs of the clients or that clients are not properly informed of the product's characteristics (low awareness).

The capitalisation component is possibly a miss-incentive. The lottery component is often the first coverage benefit advertised for an insurance product, possibly leading individuals to choose a product based on this component rather than the risk-mitigation benefit. However, little evidence has been found that the lottery component undermines policy value. Anecdotal evidence reveals that while the lottery component is a determining factor in the decision to take the insurance policy, it is not a determining factor in the decision to continue paying for the policy (Hougaard et al., 2010).

The innovation lies in payment collections and sales rather than the claims process. Distribution channels show large-scale innovation in the structuring of the partnerships, in premium collection processes and in the use of client information. This same level of innovation is not evident in the claims process. This often results in taxing requirements on the beneficiary to process a claim.

8. Meeting list

Name	Organisation	Position
Alessandro Jarzynski	QBE Brasil Seguros S.A	Presidente
Helio Fernando L. Solino	QBE Brasil Seguros S.A	Diretor de Administracao e Fomamcas – CFO
Evandro Baptistini	AON Affinity Latin America	VP & Chief Commercial Officer
Paulo Pereira	ACE Seguradora S.A.	Vice Presidente Seguros Massificados
Ana Henriette Lugard Cunha	AON Affinity Latin America	Gerente de Estudos de Mercado
Daniel Vanworst Meneghin	ACE Seguradora S.A.	Negocios Vanworst Meneghin
Ana Henriette Lugard Cunha	AON Affinity Latin America	Gerente de Estudos de Mercado
Maria Elena Bidino	CNSeg	Institutional Affairs and Reinsurance Director
Regina Lidia Giordano Simoes	SUSEP	Superintendência de Seguros Privados – SUSEP

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10. Appendix A

Type of Distribution Channel	Distribu-tion Channel	Product	Broker	Premium	Benefit
Utility (Electricity)	AES Eletropaulo	Super Proteção Premiada	AON Affinity	R$4.99 (US$2.79) per month	Financial protection against involuntary unemployment and temporary disability: • Payout equal to electricity bill (to a maximum of R$80 (US$44.8) per month) for up to 4 months. Pharmaceutical discount at selected drug stores: • Discounts of up to 25% on medicines at selected pharmacies Financial protection against permanent disability and death (from any cause): • Payout equal to electricity bill (to a maximum of R$80 (US$44.8) per month) for 12 months. • Family will receive 12 shopping vouchers worth R$100 (US$56). Household structure insurance against fire and/or lightning: • Cover of R$30,000 (US$16,800) in case of fire and lightning Emergency services: Plumber, electrician and locksmith Capitalisation allowing for four policyholders to win R$2,500 (US$1,400) per month
Utility (Electricity)	Escelsa	Seguro Proteção em Conta - Escelsa	AON Affinity	R$5,30 (US$2.96) per month	Life insurance: • In the event of death, a payout of R$153.62 (US$86.03) in shopping vouchers per month. • Funeral expense cover to the value of R$1,706.86 (US$955.84) for policyholder, spouse and children. Financial protection cover against involuntary unemployment and temporary physical disability: • Cover provides for up to 3 months payment of the utility bill Financial protection cover against permanent disability and death: • Cover provides for up to 12 months payment of the utility bill Household structure insurance: • Covers household structure in the event of fire, lightning and explosion to the value of R$38,797.10 (US$21,726.38). Capitalisation allowing for five policyholders to win R$5,750 (US$3220) per month

Table 4: ACE products brokered by AON and offered through utilities

Source: AON affinity

Nature of Distribution channel	Distribution Channel	Product	Broker	Premium	Benefit
Utility (Electricity)	COSERN – Companhia Energetica do Rio Grande do Norte	Seguro Proteção Familiar Premiada COSERN	AON Affinity	R$2.55 (US$1.4)per month	Financial protection against accidental death, permanent disability and unemployment: • Payout will cover monthly electricity bills to a maximum of R$765.29 (US$428.5) in the event of accidental death and permanent disability. • Payout will cover R$255.10 in the event of involuntary unemployment • In case of accidental death, 1x12 monthly supermarket stamps to the value of R$63.77 (US$35.1) Financial protection against temporary disability and/or sickness: • Payout will cover daily electricity expenditure of up to R$8.50 (US$4.8) to a maximum of R$255.10 (US$142.9) in the event of temporary disability and/or sickness Household structure insurance: • Covers the household structure against fire, explosions and/or lighting to a maximum of R$19,132.20 (US$10714) limited to the current value of the property.
Retailer (Electronic appliance stores)	Ricardo Eletro Divinopolis Ltda	Seguro Mega Proteção Renda	AON Affinity	R$18 (US$10.08) for the term of the financing agreement	Life, personal accident and permanent disability cover to the value of R$1,500 (US$840). Financial protection against involuntary unemployment, temporary disability and/or hospitalisation: • Payout will cover outstanding balance of financing agreement with retailer to the maximum value of R$800 (US$448). Hospitalisation cover of R$50 (US$28) per night is also subject to the maximum of R$800 (US$448) or 16 days.
Telecom	Brasil Telecom	Renda Garantida	AON Affinity	Individual: R$7.90 (US$4.4) per month	Individual plan: • Life and personal accident cover of R$1,500 (US$840) • Hospitalisation cover of R$150 (US$84) per night to a maximum of R$54,750

				Family: R$12.90 (US$7.2) per month	(US$30,660) (365 days) Family plan: • Life and personal accident cover of R$1,500 (US$840) per family member (for family members under 14 cover is limited to cost of funeral) • Hospitalisation cover of R$150 (US$84) per night to a maximum of R$54,750 (US$30,660) (365 days) Capitalisation allowing one policyholder to win R$5,000 (US$2,800) per month

Table 5: QBE products offered through retail, utility and telecommunication channels

Source: QBE website