Thinking Big: Drivers of Scale

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Why is Scale important?

Traditional insurance vs. Microinsurance

Net premium

Traditional insurance

$50

- Profit: $2.5 (5%)
- Net claims: $35 (70%)
- Total expenses: $7.5 (15%)
- Commission: $5 (10%)

Net claims: $35

- Profit: $0.25 (5%)
- Net claims: $2.75 (55%)
- Expenses: $1 (20%)
- Commission: $1 (20%)

Microinsurance

Need to Maximise Volumes
Emerging Trends in Scale: Geography and Distribution

Client Interface for Scale

- MNOS and Retailers account for less than 14%
- MFIs, groups and banks account for 52%
- Post Office
- MNO
- Funeral Parlour
- Retailer
- State
- Direct Sales
- Groups
- MFI
- Bank

Microinsurance initiatives that have achieved scale

- Scale = >1m policies/lives covered in Asia, Latin America
- Scale = >500k policies/lives covered in Africa

Number of initiatives: # 95 schemes
**Emerging Trends in Scale: Products**

### Voluntary?
- 72% of schemes offer some voluntary products

### Subsidies?
- 50% do not have subsidies

### Product Type?
- Life (life, funeral or credit life) dominates with 50% of the products
- Health and Agriculture largely subsidised

- **Product Types**
  - Life
  - Credit Life
  - Funeral
  - Health
  - Accident
  - Asset
  - Agriculture
  - Other
Overview of case studies
## Factors driving scale

### Internal: within the insurers control
- Compulsion
- Access to voluntary groups
- Partnership
- Brand
- Technology (client interface)
- Technology (administration)
- Human resources

### External: Beyond the insurers control
- Subsidy
- Latent demand
- Subsidy
- Regulation
- Market structure
- Market infrastructure

### Drivers of Scale
- Simplicity
- Affordability
- Convenience
- Tangibility
- Tailoring of product
- Awareness and communication
- Demonstration effect

### Enablers for Scale
Drivers of scale by stage

- **Agents**
- **Product & process design**
- **Brand**
- **Partnership**
- **Access to voluntary groups**
- **Compulsion**

1. **Stage 1: Compelled groups**
2. **Stage 2: Voluntary groups**
3. **Stage 3: Individual Sales**

Target new markets:
- Compulsion: individuals sales
- Voluntary groups: voluntary groups
- Access to voluntary groups: targeted new markets

Diagram illustrates the progression from compelled groups to voluntary groups and then to individual sales, highlighting the drivers of scale at each stage.
Frontier markets drive stages of scale

Stage 1: Compelled groups
- A group of people are either automatically enrolled into an insurance product (e.g. as public policy or loyalty initiative) or compelled to buy insurance (e.g. compulsory credit life). The choice may exist to opt-out of the policy.

Stage 2: Voluntary groups
- Insurance is sold to existing groups or client databases but on a voluntary basis. Products generally sold through cross-selling.

Stage 3: Individual sales
- Initiatives start targeting clients on an individual, voluntary basis and contract agents to make sales.

Agency:
- Initiatives start targeting clients on an individual, voluntary basis and contract agents to make sales.

Partnership
- Insurance is sold to existing groups or client databases but on a voluntary basis. Products generally sold through cross-selling.

Compulsion
- A group of people are either automatically enrolled into an insurance product (e.g. as public policy or loyalty initiative) or compelled to buy insurance (e.g. compulsory credit life). The choice may exist to opt-out of the policy.
Skipping Stages

**Stage 1: Compelled groups**
- Compulsion

**Stage 2: Voluntary groups**
- Partnership

**Stage 3: Individual Sales**

**Ideal - Stage 1 requires:**
- Enabling regulation
- Availability of group

**Difficult - skip straight to stage 2 requires:**
- External drivers:
  - latent demand
  - Subsidy
- Active and affordable sales

**Hardest - To skip straight to stage 3 requires:**
- Understanding of
  - Clients
  - Products
  - Technology
  - Agency
- Economics of Scale
Stages of scale: Regulation and Technology

Stage 1: Compelled groups
- Regulation allows compulsion
- Basic back-office system

Stage 2: Voluntary groups
- Regulation allows alternative intermediation and regulatory coordination
- More complex back-office system and basic client interaction

Stage 3: Individual Sales
- Simple agent requirements that protect client and offer access to information
- Complex back-office system and sophisticated client interaction
Stage 1: Compelled groups

- Cost reduction through subsidy and potential saving on product design/sales cost
- Low awareness (auto-enrolment)
- Product does not meet needs of consumer

Stage 2: Voluntary groups

- Client database
- Convenience
- Reduction in distribution cost
- Cost to remunerate partner
- Product designed for partner, not consumer

Stage 3: Individual Sales

- Tailored product meet consumer needs
- Information to make informed choice
- High sales and distribution cost impacts affordability

Stages of scale: Client Value
Take aways

Scale strategy depends of frontier target market

- Different drivers of scale need to be implemented when targeting different frontier markets in the 3 stages of scale.

Compulsion or actively targeted captive markets a good kick-start to scale

- Compulsion or similar drivers important to initiate scale. Many schemes evolve from there to add further voluntary tailored products.

Thinking big

- Most initiatives that achieve scale in microinsurance do not build up to scale over time. A decision to access a large group through a partner is the most successful strategy.
Thank You!

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Case Studies

Icon Legend
- Retailer/Pawnshop
- MFI
- Bank
- Post Office
- Group
- Direct sales
- Subsidies
- No subsidies
- Voluntary
- Compulsory
- Life
- Credit-Life
- Funeral
- Agriculture

Panellists
- tigo
- Hollard
- Protecta
- BAHIA

Additional cases reviewed
- AVBOB
- 3.4m
- 1.3m
- 4.1m
- > 1m

Panellists:
- > 500k
- 7m
- 25m
- 3m to 4m
- > 1m

Additional cases reviewed:
- Panellists