



Making financial markets work for the poor



Case Study: Hollard Insurance and Take it Eezi

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

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Date: 16 July 2010

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1. Introduction

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

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

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

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

Lessons from Hollard/Take it Eezi. This case study highlights the Hollard/Take it Eezi experience in the microinsurance market. It illustrates the following themes and issues:

- the innovative use of technology to reach a target market residing, *inter alia*, in informal settlements such as townships and hard-to-reach rural areas; and
- the difficulty of achieving success in take-up in the absence of a trusted brand and active product promotion.

2. About the institution

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

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

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

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

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

3. About the partnership

Vendor-based network. Take it Eezi, a rural and township-based vendor network, is a branding initiative by Sharedphone in South Africa. Sharedphone is a low-cost public phone service offering distributed through formal and informal vendor networks. It is 50.1% owned by Blue Label Telecoms³, operating in at least 18 countries (Mocke, 2009). Take it Eezi expands Sharedphone's offering by selling prepaid cellular airtime, electricity and insurance to areas that did not have access to these products before. It has partnered with an extensive network of informal vendors throughout South Africa and has approximately 18,000 registered agents. Many of these vendors are commonly known as *spaza shops* and can be found in informal settlements or remote rural areas of South Africa.

Innovative technology allows vendors to connect to central payments platform. The business out of which Take it Eezi originated started off by selling airtime and prepaid electricity through an innovative SIM card based point-of-sale (POS) technology that allows the vendors to facilitate the sales of these virtual commodities by linking to a central server, thereby accessing a retail payment system network from any remote location with cell phone reception. After a facilitated introduction to Hollard Life by Ecom Brokerage, Sharedphone added a Hollard-underwritten funeral insurance product *My Funeral Card*, to its product offering in January 2007 (Moodly, 2007). Take it Eezi currently only sells insurance products underwritten by Hollard Life. It is considering extending the product offering to include asset insurance products.

Benefits brought to partnership by each party. Take it Eezi's experience in the rural and township market has brought additional reach and market insight to Hollard's product offering. Hollard, on the other hand, has brought underwriting and product know-how to the table. The partnership offers Take it Eezi vendors the opportunity to increase their product range, while offering insurance clients an easily reachable and convenient pay point terminal.

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

³ Blue Label is a distributor of prepaid secure electronic tokens of value and transactional services within emerging and developing economies. It processes in excess of 300 million transactions per month.

4. About the products and channel

Take it Eezi currently sells five different funeral policy options packaged under the brand of My Funeral Card (see table 1 below). It consists of two single member and three family cover options:

- Single member cover of \$1181.50 (R10,000) or \$2363 (R20,000) can be obtained at a premium of \$2.13 (R18) or \$3.31 (R28) per month, respectively. It is only available to individuals aged 18 – 65.
- Three levels of family cover are available: \$590.75 (R5,000), \$1181.5 (R10,000) or \$2363 (R20,000). As the table below indicates, cover reduces for children under the age of 14. The monthly premiums for the three options are \$2.95 (R25), \$4.49 (R38) and \$9.21 (R78), respectively.

My funeral card	Premium per month	Funeral Benefits	Age	Cover/premium ratio ⁴
Single member R10 000	\$2.13 (R18)	Member - \$1181.50 (R10,000)	18 - 65	556
Single member R20 000	\$3.31 (R28)	Member – \$2363 (R20,000)	18 - 65	714
Family R5000	\$2.95 (R25)	Member & Spouse – \$590.75 (R5,000) Child – \$590.75 (R5,000) Child – \$295.38 (R2,500) Child – \$147.69 (R1,250) Stillborn – \$88.61 (R750)	18 – 65 14 – 21 6 – 13 1 – 5	1230 ⁵
Family R10 000	\$4.49 (R38)	Member & Spouse - \$1181.50 (R10,000) Child – \$1181.50 (R10,000) Child – \$590.75 (R5,000) Child - \$295.38 (R2,500) Stillborn – \$147.69 (R1,250)	18 – 65 14 – 21 6 – 13 1 – 5	1612
Family R20 000	\$9.22 (R78)	Member & Spouse -\$2363 (R20,000) Child – \$2363 (R20,000) Child – \$1181.50 (R10,000) Child – \$590.75 (R5,000) Stillborn - \$147.69 (R1,250)	18 – 65 14-21 6-13 1-5	1555

Table 1: My funeral card

Source: Ross, 2009b

My Funeral Card also makes provision for adding additional children and extended family members up to the age of 74 to the policy. The cost associated with this additional cover is as follows:

Extended Cover	Premium per month	Funeral benefits	Age	Cover/premium ratio
	\$1.89 (R16)	\$590.75 (R5,000)	1 – 20	313
	\$2.95 (R25)	\$590.75 (R5,000)	21 – 64	200
	\$4.72 (R39.99)	\$590.75 (R5,000)	65-74	128

Table 2: My funeral card extended cover

Source: Ross, 2009b

⁴ Cover is considered to be the maximum amount the policy would pay out given the accidental death of a whole family.

⁵ Adds payout for spouse, 4 children between the ages of 14-21, and a stillborn baby

Policy activation happens through a few steps:

- The product takes the form of a starter pack, with similar packaging to that in which a cell phone sim card starter pack will be sold. The starter pack contains information on the various product options. The policy is activated by the vendor once the joining fee of \$2.36 (R20) is paid. The joining fee does not constitute the first month's premium, but provides the client with one month's accidental death cover⁶, with the assumption that the first premium may only be paid up to one month later. Depending on the policy option selected after studying the starter pack information, the client will then have to pay a specific premium (relative to the cover amount selected) to activate the funeral insurance cover.
- After the starter pack has been purchased, the vendor uploads the client information, including the policy number and identity number of the client, to a central server, using Take it Eezi's payment platform that is operated through a cell phone interface.
- A message (SMS) will then be sent to the client, vendor and Take it Eezi to acknowledge the purchase of the starter pack. Take it Eezi then sends the new client's details to the call centre of The Best Funeral Society, Hollard's policy administrators (see description below). The Best Funeral Society will then contact the client to capture additional information.

Premium collection. The monthly premium collection is initiated by a reminder SMS⁷ text message sent to the client's cell phone. Clients then need to present their policy card to the vendor and pay the vendor the outstanding amount in cash. The vendor will, using the Take it Eezi payment device (a special SIM card inserted into a cell phone interface) communicate to the central server on the premium payment. Both the client and vendor will then receive a reference number via an SMS to confirm that the premium has been paid.

Claims process. The claims process can be started by phoning the telephone number of The Best Funeral Society. Once all the required documentation such as the death certificate and identity documents have been submitted, claims are paid into a bank account nominated by the beneficiary.

Six month waiting period, limited exclusions. No exclusions, other than age, apply. In line with standard industry practice in this market segment, the policy has a compulsory waiting period of six months before death from natural causes is covered; death due to accidental causes is covered from day one.

Policy administration. Hollard funeral policies are administrated by The Best Funeral Society. It is a subsidiary company 90% owned by Hollard and takes responsibility for the management of policy activation, monthly payment reminders and payout procedures of all Take It Eezi's funeral products.

Target market and clients. The product offering, with individual and family cover from as low as R18 (\$2.13) per month, has been designed specifically for the low-income market. Take it Eezi's distribution network also provides a platform for Hollard to reach the lowest-income earners in their local communities.

⁶ We have not been able to obtain information on the level of accidental death cover provided by the activation pack payment.

⁷ short message service

Marketing, sales process, advice and regulation. The product is positioned as a non-advice, tick-box product where the vendors and their staff perform merely an administrative function⁸. Clients are not provided with any advice by the vendor and have to contact a call centre, managed by a registered financial service provider - The Best Funeral Society-, in order to obtain further information on the product.

Box 1. Hollard/Take it Eezi

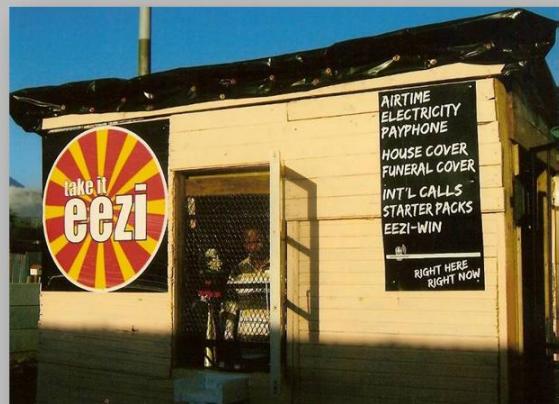
Established: January 2007

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

- Two single-member policies
- Three family policies

Policy Activation:

Step One: The customer buys a starter pack for R20 and pays first premium according to list of policy choices.



Step Two: The vendor uploads the client's information, policy number, and identification number.

Step Three: An SMS is sent to the client, vendor, and to Take it Eezi. Hollard's policy administrator, The Best Funeral Society, contacts the customer directly for additional information.

Key Challenges:

Limited incentives for vendors. Vendors receive the R20 joining fee, but no further incentive for premium collection.

Higher-than-average mortality rates, perhaps due to problems with adverse selection.

Absence of a trusted brand. Take it Eezi is not a commonly-recognised brand, and customers may not yet feel comfortable purchasing insurance products it sells.

⁸ In South Africa, market conduct in the financial sector is governed by the Financial Advisory and Intermediary Service (FAIS) Act. The act stipulates minimum fit and proper requirements (including education and experience) for sales agents. This pushes up sales costs. However, individuals who are not registered as agents or financial services providers may perform a purely administrative function in the sales of insurance policies. This category has facilitated the development of non-advice based, tick-of-the-box sales model that excludes any advice or verbal disclosure at the point of sale.

Limited take-up. Approximately two years after its launch, Take it Eezi had only 1,800 active insurance policies. However, Hollard management remains optimistic: product sales have been improving recently and Hollard plans to launch new insurance products for this channel (Mocke, 2009).

5. Challenges

There are a number of challenges that have contributed to the lower than expected initial uptake and that management is now working to overcome:

Limited incentive for sales promotion. Vendors receive the initial \$2.36 (R20) joining fee as commission for selling the product. However, currently there is no additional incentive in place for vendors to collect monthly premiums.

Products have experienced higher than expected mortality rates. It is not clear whether the higher than anticipated mortality rates experienced by the Hollard - Take it Eezi model is due to anti-selection or simply an under-estimation of mortality rates in the target market that it serves.

Absence of a trusted brand may impact on the success of the model. Take it Eezi is a relatively new brand. It does not have the benefit of many years of retail experience and since the insurance products are sold in an informal setting, it is possible that clients may not yet feel comfortable buying a relatively complex product in an informal setting, along with their bread and cell phone airtime.

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