Reaching the client: Update on microinsurance innovation in South Africa

Study commissioned by the FinMark Trust

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1. **Introduction**

South Africa has one of the most innovative insurance markets in the world. It is also considered one of the leading microinsurance jurisdictions and commercial insurers have reached significant penetration in the low-income market albeit largely through funeral and credit life insurance. Various environmental and political factors have combined in the last decade to incentivise commercial insurers to explore new ways of doing business in the low-income market. Between 2006 and 2008, many case studies on distribution channels and interesting products within the South African microinsurance landscape were identified and documented\(^1\), including some that have been exploring innovative ways of reaching the low-income market through retailer or cell phone intermediation. For a number of these, the models were so new that the experience was insufficient to comment on the success or failure of the model.

At least three signals suggest it is time to do an update on the innovation experience:

- **Mixed experience of innovators.** The longer history in the market now provides us with a better data picture to assist the analysis. Some models have not achieved the desired uptake and/or have been discontinued while others seen an evolution in the products based on varied experience across different product offerings.

- **New experiments.** New microinsurance models and products have also been introduced, especially in the category of “adviceless” or “passive” distribution models. This provides a wider experience base to review the experience and appropriateness of these models in the low-income market.

- **Changing environment.** Ongoing uncertainty about the future of the Financial Sector Charter\(^2\) is becoming a strong driving force of microinsurance innovation.

**Focus on distribution.** Accordingly this document seeks to provide an update on the microinsurance innovation experience in South Africa and consider the lessons that can be drawn from their success and failures. It builds on a number of case studies\(^3\) and seeks to draw out the main issues and conclusions across these experiences. In addition to reviewing some new models, the case studies also provide updates on those that were covered in earlier FinMark research. The main focus of the case studies is on distribution, an area that has seen particular innovation, but they also considers product innovation as it is closely linked to the nature of the distribution model.

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

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\(^1\) See, for example, Bester et al, 2005; Bester et al, 2006; Smith, Walker & Chamberlain, 2006; Bester et al, 2008; IAIS/MIN JWGM, 2008

\(^2\) See Box 1 below.

\(^3\) Each case study is also available as a separate document.
2. **SA microinsurance context**

The South African context and market and regulatory forces that drive its development have been covered in a number of research reports\(^5\). Here, we only highlight some salient features that are particularly relevant to innovation in this space.

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**Box 1. The Financial Sector Charter in brief**

Since democratisation in 1994, South Africa has been characterised by a drive towards black economic empowerment. As part of this process, industry, labour and other stakeholders within the financial sector in 2003 negotiated and signed the Financial Sector Charter as a commitment by the formal industry to implement black economic empowerment. This includes the extension of financial access to the low-income market. The charter also commits government to providing a facilitative regulatory framework to achieve the charter targets and goals. The access targets for insurance require that 6% of the low-income population have effective access to short-term and 23% to long-term insurance by 2014. This equates to 1.2-million short-term and 4.5-million long-term policyholders (FinScope\(^6\), 2006). “Effective access” is defined in terms of the distance to the nearest service point, the range of products and services available, their appropriateness to the needs of the low-income market, and whether they are affordably priced as well as structured and described to customers in a simple and easy to understand manner. In addition, industry is committed to spending 0.2% of post-tax profits on consumer education.

The future of the Charter is uncertain. Due to an inability to agree on ownership structures, a stalemate was reached in 2009, with the prospect of the charter falling away in favour of codes under Black Empowerment Legislation. These codes do not include financial inclusion of black consumers as an objective in the way that the Charter has. In the February 2010 budget speech, the Minister of Finance however highlighted the need to reconsider the matter to find a way forward, given the important role that the Charter is playing in the industry.

Although the exact impact of the Charter on innovation cannot be quantified it has unarguably been a major driving force for companies to innovate in the low-income space. Larger traditional companies with little low-income exposure have taken over smaller companies focusing on the low-income market. Business development units in some of the same insurers would have benefited from the Charter pressure to convince management and boards to set up new units and subsidiaries to explore the low-income market. Industry stakeholders have benefitted from Government’s commitment in the Charter to create a supportive regulatory environment for inclusion. This is reflected in the microinsurance discussion paper but also in independent changes to the market conduct regulation to accommodate low-income business models.

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**Increasing low-income market focus.** Traditionally serving the high-end of the market, commercial insurers are now increasingly targeting the low-income market, and

\(^4\) This section draws partly on the summary of the microinsurance market, based on various previous reports, that Cenfri compiled as input to the University of Pretoria Centre for Microfinance scan of the microfinance environment, commissioned by FMT.

\(^5\) See, for example: Bester et al, 2005; Bester et al, 2006; Bester et al, 2008; National Treasury, 2008; IAIS/MIN JWGMI, 2008.
considerable product and distribution innovation have made insurance offerings more appropriate and attractive to the low-income market (Bester et al., 2008). As a result, various products are now available that provide cover at as little as R20 ($2.36) per month and that are characterised by simple and flexible terms. One of the drivers of this process has been industry’s efforts to comply with the Financial Sector Charter (see Box 1 above).  

Demarcation. The insurance market in South Africa is divided into long-term insurance, governed by the Long-term Insurance Act, 52 of 1998, and short-term insurance, governed by the Short-term Insurance Act, 53 of 1998. A single company is not allowed to have licences under both acts. All policies relating to life events are captured under long-term insurance, while short-term insurance predominantly covers losses relating to property. Both acts include personal accident or disability events as well as capital/sum assured insurance for health events. However, both strictly exclude indemnity health insurance, which is regulated under the Medical Schemes Act, 131 of 1998 (Bester et al., 2008). This demarcation and the strict regulatory environment for medical schemes have allowed little room for innovation in health cover for the poor.

Funeral dominance. Though very small as a percentage of overall premium flows\(^6\), insurance taken up by the low-income population is not a new concept in South Africa and, relative to its peers, South Africa has a well-developed microinsurance industry. This is largely due to the prevalence of funeral insurance among the poor. In 2007, 40% of the Charter-defined low-income market\(^8\) had some kind of funeral cover, versus only 2% with life cover other than funeral and only 1.5% with asset insurance cover (Eighty20, 2008, based on FinScope 2007 dataset). There is also a tradition of providing for death through informal risk-pooling mechanisms called burial societies. Furthermore, funeral insurance policies that provide for a funeral service are often provided through funeral undertakers (Bester et al., 2008). In addition, a number of commercial insurers have been active in the funeral insurance market (referred to as assistance business in regulation) for some time. More recently, new entrants have also entered the space and it is in this market that most innovation is taking place.

Informal cover in the funeral market. In addition to the commercial insurers, there are a number of burial societies providing funeral insurance formally as registered friendly societies. Yet the bulk of burial society funeral cover is informal. It has been estimated that there are between 80,000 and 100,000 mutual burial societies serving between 4 and 8 million individuals, as well as between 3,000 and 5,000 funeral parlours providing funeral cover. Of these funeral parlours, only an estimated 50% have underwriting by registered insurers. The rest provide informal, in-house insurance without authorisation from the authorities (Bester et al., 2008, quoting 2005 FinMark Trust research). All in all, almost two thirds of the demand for funeral insurance is met informally.

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\(^6\) 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.

\(^7\) In 2008, assistance business (the only distinct “low-income” type of insurance for which data is recorded in South Africa) accounted for 1.4% of total net insurance premiums in the long-term insurance market in South Africa (FSB Annual report, 2009).

\(^8\) The Financial Sector Charter defines the low-income market as individuals in LSM 1-5. The Living Standard Measure (LSM) is a tool used to segment the wider South African market according to individuals’ living standards. It uses location (urban vs. rural), ownership of household assets and access to services to group individuals into one of ten potential LSMS through calculation of a composite indicator (Eighty20, 2005). LSM 1 is the lowest LSM, containing the poorest individuals in terms of the composite indicator, while LSM 10 is the highest category and contains the wealthiest individuals if ranked according the composite indicator.
Compulsory credit insurance. The second biggest micro-insurance market is credit insurance\textsuperscript{9}. It is provided largely through credit retailers, but also through microlenders, and is driven by its compulsory nature. FinScope (2007) data indicate less than half a percentage point of adults to have credit insurance. This is a vast underestimation – a fact that may be explained by low awareness of cover among those with credit life. Based on estimates in the market and discussions with the National Credit Regulator, Bester et al. (2008, as contained in IAIS/MIN JWGMI, 2008) conservatively estimated there to be at least 2 million microinsurance credit life clients, which would account for 40% of the formal microinsurance market, should it be added to the FinScope figures.

Short-term microinsurance limited. The past few years have seen the emergence of new microinsurance products in cell phone insurance, housing insurance, and other products such as legal insurance or hospital cash plans. However, despite this proactive effort by industry to provide products to the low-income market, short-term insurance has not managed to penetrate the low-income market beyond 1.5% of LSM 1-5 adults (according to the FinScope 2007 data analysed by Eighty20, 2008). The short-term insurance market for the low-income population is currently still dominated by credit-based insurance, i.e. asset insurance purchased with goods purchases on credit. Voluntary products such as cell phone insurance are also starting to achieve take-up\textsuperscript{10}.

Emerging microinsurance product characteristics. Apart from being simplified and characterised by relatively low premiums, products aimed at the low-income market (funeral, as well as personal accident, disability and other types of policies) are most often underwritten on a group basis. This means that pricing is done on a group basis, with no medical or other assessments required of each individual in order to determine his/her risk profile and premium. This basis of underwriting significantly reduces the cost of microinsurance. Even though underwriting may be done on group basis, policies may still be individually sold to members of the group, and some groups are very loosely defined (e.g. clients of a cash retailer). To limit the risk of adverse selection\textsuperscript{11} due to the absence of individual underwriting and a common bond amongst group members, these policies generally rely on a waiting period, typically of 6 months, during which the policyholder will pay premiums but will not yet be covered for natural death. Generally, contract periods in the microinsurance market are also no longer than one year, with the norm being one-month contracts renewable with the payment of each premium.

All of this has assisted in limiting the prudential risk of insurance products sold to the low-income market, and has resulted in the implicit emergence of a “microinsurance” category of products (Bester et al., 2008).

Distribution innovation. In the quest to develop products for the low-income market, insurers increasingly focus on cost-effective distribution. Intermediation innovations beyond

\textsuperscript{9} Credit or credit life insurance insures the value of outstanding debt in the case of a policyholder’s death. It may also include riders such as funeral insurance for the purchaser or insurance on the value of the product if lost or damaged. Most often, credit life insurance is made a compulsory precondition to a loan. This is often driven by credit providers, as it provides them protection against payment default in the case of a debtor’s death or (in some cases) disability. At the same time, it protects the deceased borrower’s family from having to repay the debt (Smith, 2008).

\textsuperscript{10} This reflects the rapid adoption of mobile telephony and the important role played by the cell phone as a personal and business communication tool in the lives of the poor.

\textsuperscript{11} This is relevant to the life insurance market: individuals that are of poor health or terminally ill will have an incentive to take out life insurance shortly before their death. If there is no way of ascertaining their health status and either pricing for it or filtering them out, insurers run the risk of a disproportionate number of claims on their book. A waiting period significantly reduces the risk of adverse selection.
the traditional broker model have played an important role in the microinsurance models that have evolved\(^\text{12}\). These include the use of the cell phone as communication and sales tool, as well as partnerships with retailer or other chains (Bester et al., 2008).

Role of group/aggregator distribution. In addition, groups play an important role in distribution to the low-income market in South Africa. Burial societies, stokvels, microfinance institutions, church groups, clients of specific stores and sports clubs are among the groups that have been used as aggregators allowing commercial insurers to reach their members in a cost-effective manner. The intermediation of insurance is most often initiated by the aggregator looking to meet the needs of its members or clients rather than by an existing intermediary or insurance product provider. The trust placed in the group by the members play an important role in facilitating insurance uptake among members. Although these groups normally have a relationship with only one insurer as underwriter, the group is independent in the sense that if the products of a specific insurer no longer meet the needs of its clients, it can move to another insurer. The group often drives the product innovation process with the help of the insurer, and products are tailored to meet the needs of members (Bester et al., 2008).

3. Market conduct regulation impacts on distribution model development

Market conduct regulation as a driver of innovation. As discussed above, microinsurance innovation in South Africa is characterised by the emergence of a number of new distribution models. Most of these new models have been characterised by one specific feature: they do not provide any advice or verbal information during the sales process. Because of this feature, they rely on the client to initiate the transaction. The intermediary thus takes a “passive” role in the sales process and we therefore refer to these models as “passive” models. This development can be considered a direct result of market conduct regulation in South Africa. Although the case studies presented in this document also speak to other regulatory issues, we limit our overview of the regulatory context to market conduct regulation, seeing it as the most prominent driver of distribution innovation.

SA market conduct regulation directed by FAIS. Market conduct regulation refers to the regulation of the distribution or intermediation of insurance products. Regulation of this kind could include requirements as to who can intermediate insurance, fit and proper requirements for agents, brokers and sales representatives, regulation of the selling process (including disclosure requirements and giving of advice), regulation of the payment of commission and statutory requirements that make the take-up of certain types of insurance compulsory. Market conduct regulation in South Africa is primarily contained in the Financial Advisory and Intermediary Services (FAIS) Act, 37 of 2002, which sets the conditions for the intermediation of insurance (and other financial services) to the public in order to enhance consumer protection. Some elements of market conduct regulation also appear in the Long-term and Short-term Insurance Acts (Bester et al, 2008\(^\text{13}\)).

Cost implications of FAIS. In its quest to enhance consumer protection, the FAIS Act also had a number of unintended cost implications for the market. Not only has it led to higher barriers to entry (intermediaries have to meet certain minimum education standards), but it

\(^\text{12}\) See Bester et al (2008) for an earlier overview of innovative microinsurance models in South Africa.

\(^\text{13}\) Quoted directly
has also increased the infrastructural costs associated with being an intermediary (intermediaries are now required to have access to a full set of business services such as photocopying and printing, filing, etc.). Furthermore, FAIS raises the ongoing compliance and reporting costs for the intermediary and his/her employer. One of the most significant impacts has been through higher transaction costs related to the sales process. FAIS has made explicit a number of duties that the intermediary has to fulfil while dealing with a client, of which the most expensive has been around the provision of financial advice (Bester et al, 2006).

Advice-related impacts particularly severe. The FAIS Act does not require intermediaries to provide advice but do require that intermediaries provide the necessary information for the client to make an informed decision. However, when advice is provided, the Act sets out requirements for how this must be done. This has added costs and has created uncertainties regarding what is required in the low-income sphere. FAIS is explicit that where an intermediary provides advice, he or she must be registered as a financial service provider (FSP14) and is required to carry out a financial needs analysis for the client. This requires that before providing advice the intermediary must take “reasonable steps” to source from the client information about his financial situation, product experience and objectives, and must then conduct an analysis of the information and identify the products that will be appropriate to the client’s risk profile and needs. The intermediary must also take “reasonable steps” (taking into account the likely level of financial literacy of the client) to ensure that the client understands the advice given and is in a position to make an informed decision.

Clerical functions exempt from FAIS. An undated guidance note by the Financial Services Board15 excludes from the definition of intermediary services (and thereby the scope of the Act) any clerical service that may include premium collection, but does not require judgment, does not provide advice and does not lead the client to a specific transaction. This guidance note was targeted at back-office administrative staff who, due to the wide definition of intermediary services used in the Act, may have been deemed to be subject to the requirements of the Act. Although the intention of the FSB was not to create a category of intermediary exempted from the Act, this has been the unintended consequence. Insurance companies have interpreted the guidance note as allowing a category of sales staff that can be responsible for the non-advice based selling of insurance products on a commoditised basis, as is the case through retailer networks. As, according to the companies’ interpretation, they are not deemed to provide intermediary services, they need not be registered or comply with the various FAIS requirements. This was not the intention of the guidance note and is a point of contention in the market.

The emergence of non-advice selling and the bifurcation of the market. By making advice more expensive and opening up the opportunity for non-advice based selling, FAIS has inadvertently led to the dominance of the non-advice/passive sales model in the microinsurance market. In the insurance market as a whole, these developments have caused a bifurcation between advice-based sales to the high-income market and tick-box selling to the low-income market (Bester et al, 2008). As the discussion above indicated, the FAIS Act has significantly increased the cost of advice-based sales. This has impacted particularly on low-income models where premiums, and hence the proportion that can be

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14 An individual can be registered either as a sole proprietor FSP, or as a key individual or representative of an FSP.
15 The insurance and pension funds supervisor
dedicated to sales costs, are low. At the same time the guidance note issued by the FSB was interpreted as allowing certain selling activities and intermediary staff to be exempted from FAIS and its requirements. This has created the space for non-advice based selling by sales representatives not registered for FAIS purposes. Over the past few years the bulk of microinsurance innovation and development occurred within this non-advice space. Insurers have developed “tick-of-the-box” selling techniques that do not require any active sales or verbal disclosure by a sales person. They have also started to focus on retailer and other distribution partnerships to sell “commoditised” insurance products to the low-income market without any advice.

The impact of FAIS on the market and appropriate changes required are part of the issues explored in the proposed new regulatory framework for microinsurance proposed in National Treasury’s Microinsurance discussion paper.

4. **Emerging intermediary categories and models**

From the recent South African experience, three alternative categories of insurance intermediaries emerged and have been the focus of this review. These are:

- Retailers (both clothing and food);
- Retail payment networks partnering with formal and informal vendor networks; and
- Cell phone networks/airtime distributors.\(^\text{16}\)

From the larger group of insurers and intermediaries interviewed for this study, we selected four case studies on different, innovative microinsurance models in South Africa. Three of these case studies focus primarily on the distribution channel while fourth case study is focused on the microinsurance innovation unit of a large, traditional insurer and this unit’s different distribution approaches. The case studies are:

- Hollard Insurance and Take it Eezi: a vendor-based retail payment network;
- Hollard Insurance and Pep: a clothing retailer;
- Metropolitan Cover2go: an insurer using various innovative distribution channels; and
- Shoprite supermarket: a food retailer distributing insurance products from three different insurers.

Premiums start from just more than R18 (slightly more than $2) per month, depending on the type of cover chosen. The maximum cover provided per life is R20,000 ($2,363), with most policies also giving options of R5,000 (about $590) or R10,000 (about $1,180) cover. Below, we provide a brief summary of each of these models, drawing on the sources quoted in the full case studies.

*The full case studies are available as separate documents\(^\text{17}\) and can be consulted for any additional information required.*

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\(^{16}\) Although we are aware of many initiatives to distribute insurance through airtime vendors, we are unable to provide real examples at this stage. Many of the insurance players interviewed for this study mentioned that they are exploring partnerships or are about to pilot projects with airtime distributors and are thus not yet willing to share this information publicly.

\(^{17}\) See the Bibliography for comprehensive references.
4.1. Hollard Insurance and Take it Eezi

In January 2007, Hollard Insurance, South Africa’s largest private-owned insurance company, partnered with Take it Eezi\(^\text{18}\), a rural and township-based vendor network, to provide funeral insurance called *My Funeral Card* to the low-income market in South Africa. It uses an innovative SIM card based point-of-sale (POS) technology to extend prepaid cellular airtime, electricity and insurance to individuals that previously did not have access to these products. To date they have partnered with an extensive network of informal vendors throughout South Africa and have approximately 18,000 registered agents. Many of these vendors are

Box 2. 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.

\(^{18}\) Take it Eezi operates as a branded initiative of the company Sharedphone. Sharedphone is 50.1% owned by Blue Label Telecoms and operates in more than 19 countries including Mexico (Mocke, 2009).
commonly known as spaza\textsuperscript{19} shops and can be found in informal settlements or remote rural areas of South Africa.

The network currently sells five different funeral policy options packaged under the Hollard My Funeral Card brand, with different premium and cover levels and options to cover a single member or the whole family (including extended family).

The insurance product and promotional materials are placed in the Take it Eezi store. To avoid regulatory complications under FAIS, the vendors do not actively promote or sell the product the product and clients are required to ask for the insurance product upon seeing promotional material. Clients are registered using the Take it Eezi payment device (a special SIM card inserted into a cell phone interface) and can pay their monthly premiums in cash at the vendor. Once payment has been received, the vendor will use the Take it Eezi payment device to communicate to the central Take it Eezi server that the premium has been received. Both the client and vendor will then receive a reference number via a short message service (SMS) confirming that the policy has been paid for.

To date, there are only a couple of thousand active policies. However, Hollard management remains optimistic; product sales have been improving recently and they are planning to launch new insurance products through this channel.

4.2. Hollard Insurance and Pep

During March 2006, Hollard Insurance launched an insurance partnership with Pep. Pep Stores, a wholly-owned subsidiary of Pepkor, was founded in 1965 and has grown to a network of 1,159 stores throughout South Africa, extending into remote and rural towns and often being the only branded and networked store in some of these towns. Pep describes itself as a cash-based, low margin, high volume, clothing retail store. It has expanded its product offering to include cell phones, airtime, prepaid electricity, insurance and, to a lesser extent, home appliances. Pep is known for its innovative business model that constantly seeks to bring additional value to its LSM\textsuperscript{20} 2 - 6 target market (Pep, 2009).

The insurance products are placed on a shelf in the store near cashier queues and are not actively sold by store staff. The cashier captures the client’s contact details and the client is then phoned within 72 hours by the Hollard-call centre to obtain more details and activate the cover. The product’s packaging is designed to look similar to that of a cell phone sim card and airtime “starter pack” - a format that the market is very familiar with. Clients are able to pay their premiums in cash at the till point in-store upon presentation of their policy card or policy number and clients are reminded of their monthly payment through an SMS. The model does not rely on the active marketing or selling of the product and clients are required to initiate the transaction. Pep staff has not been trained to provide any advice or verbal information on the product but more product information is obtainable through the Hollard call centre.

\textsuperscript{19} Spaza shops are small, informal stores, often operated out of people’s homes in the townships or informal settlements of South Africa.

\textsuperscript{20} The South African Advertising Research Foundation’s (SAARF) Living Standard Measurement (LSM) divides the population into ten LSM groups with 1 being the lowest and 10 the highest. Grouping is based on 29 factors including degree of urbanization, ownership of cars and of major appliances.
When the insurance products were first launched in March 2006, the product offering included a funeral insurance product, a personal accident product and a cell phone insurance product. Since then, the Hollard/Pep product offering has undergone a number of changes in an attempt to better meet client needs and to tailor product pricing and structure to the market experience. This has included discontinuing the personal accident and cell phone insurance policies and extending the variety of funeral cover offered. Pep currently offers five funeral insurance policies: two options for “Family” cover; two levels for “Senior” cover for individuals between the ages of 65 and 74 (designed so that Pep clients can buy a funeral policy specifically for an elderly parent); and a policy that pays out in equal instalments over a 12 month period (instead of a lump sum) and is intended to provide ongoing support after the death of the policyholder (the policy only covers the life of the policyholder).

Box 3. Pep/Hollard

Established: March 2006

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

- Two family policies
- Two Senior policies
- One Family Supporter policy

Policy Activation:

Step One: buy starter pack of chosen product (purchase price equal to the first month’s premium).

Step Two: The cashier captures the client’s name, telephone number, and identification number.

Step Three: Within 72 hours, Hollard’s policy administrator, The Best Funeral Society, contacts the customer directly for additional information.

Success Factors:

- Low distribution costs through Pep’s network of stores.
- Costs kept low by provision of limited information and no advice.
- Commitment to success by retailer, Pep.
- Hollard’s experience with unexplored markets contributed to the venture’s success. Through several iterations, the partnership was able to settle on insurance products that worked for both them and their customers.
The Pep-Hollard model represents one of the most successful examples of microinsurance distribution innovation in South Africa, with more than 200,000 active policies. Despite this, the model has only been able to sell funeral insurance with which the target market is very familiar. It has not yet been successful in creating markets for new products.

### 4.3. Metropolitan Cover2go

Metropolitan Holdings Limited, the listed holding company for insurance and financial services provider Metropolitan Life (a long-term insurance company), was founded in 1898.

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<th>Box 1. Metropolitan Cover2Go</th>
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<tbody>
<tr>
<td><strong>Established:</strong> 2006</td>
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<tr>
<td><strong>Purchasing Options:</strong> Three distribution channels, three products</td>
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<tr>
<td>- Shoprite stores – Cashback Funeral Policy</td>
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<tr>
<td>- Wiredloop vendor network – Family Burial Cover</td>
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<td>- Cell-phone based distribution – Accidental Death Cover</td>
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<thead>
<tr>
<th>Shoprite – Cashback Funeral Policy</th>
<th><strong>Successes</strong></th>
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</thead>
<tbody>
<tr>
<td>Healthy partner relationship between Cover2Go and Shoprite</td>
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<tr>
<td>Tailored product – Shoprite initiated the relationship and actively participates in designing it.</td>
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<tr>
<td>Cashback nature of the product may aid in managing risk pool by attracting good-risk clients.</td>
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<tr>
<td><strong>Shortcomings</strong></td>
<td></td>
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<tr>
<td>Product design does not suit everyone’s needs. (e.g. Only one adult is covered).</td>
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<td>Complicated activation process may discourage take-up.</td>
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<tr>
<th>WiredLoop – Family Burial Cover</th>
<th><strong>Successes</strong></th>
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<tr>
<td><strong>Shortcomings</strong></td>
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<tr>
<td>The temporary nature of some vendors makes distribution and premium collection difficult.</td>
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<tr>
<td>Higher than expected levels of mortality, perhaps due to little information about the health of the policy-holder.</td>
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<td>Limited customer trust in spaza shop vendors.</td>
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<td>No incentives for vendors encouraging them to sell the product.</td>
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<tr>
<th>Cell-phone based distribution</th>
<th><strong>Successes</strong></th>
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<tbody>
<tr>
<td><strong>Shortcomings</strong></td>
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<tr>
<td>No face-to-face interaction.</td>
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<tr>
<td>Cell-phone distribution is expensive due to the marketing required, and costs associated with airtime conversion.</td>
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</table>
It has operations in Ghana, Nigeria, Namibia, Botswana, Lesotho, Kenya and South Africa. Metropolitan Life is the fourth largest life insurer (by market capitalisation) in South Africa (Metropolitan, 2009).

Cover2go, a division of Metropolitan, was established in 2006 to provide innovative products to the lower income market segment that may not have access to insurance products or do not want to make use of a broker (Cover2go, 2009). Although it primarily focuses on the low-income market, it is hoped that some of the distribution innovation by Cover2go will also have value for the other market segments of Metropolitan.

Metropolitan Cover2go has created accidental death and funeral cover for the lower-income market using three alternative distribution channels:

- **Cell-phone based distribution.** Cover2go started its entry into the South African low-income insurance market by offering an innovative accidental death product using cellular airtime as a means of payment. The product was launched as a pilot project at 20 taxi ranks during the 2007 Easter holidays (Financial Technology, 2009). The Easter holiday period is a time when South Africans tend to travel far to spend time with their families and often have to travel by road to get to their destination. This period is characterised by a high car accident fatality rate. Given that most South Africans do not own cars and many have to rely on the minibus taxi industry for transport, Cover2go decided to target minibus taxi ranks during its Easter pilot with marketing methods such as posters, industrial theatre and product promoters talking to commuters at the rank (but not selling the product).

  The insurance product provides cover in the case of accidental death for a 30-day period. New clients only have to send an SMS with their name and national identity number to a premium-rated short code. The short code number is marketed through various advertisements in the popular media and press, as well as posters placed in strategic places such as minibus taxi ranks. The policy premium is deducted from the available airtime on the policy holder’s cellular phone. Cover2go then sends a reply via SMS to the policyholder’s cell phone number to confirm activation. The confirmation SMS contains the policy number, requests the client to respond via SMS to register the name of a beneficiary, and reminds the policyholder to inform the beneficiary about the life insurance (Ahboa, 2007). The cover is instant and no further interaction with the insurance company is needed for the duration of the cover. The product has achieved limited success in terms of take-up and has effectively been discontinued.

- **Over-the-counter distribution through low-income food retailer Shoprite.** This is Cover2go’s largest distribution channel. The Cashback Funeral Policy was launched in November 2008. It offers policyholders the opportunity to receive a fixed percentage of all premiums paid back at the end of the policy’s five year term, in the event that the policyholder does not die during this period. The policy does not have a limit on the amount of children that can be added to the policy but only one adult

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21 "Shortcode messaging is where a mobile recipient is charged at a standard or premium rate for either receiving or sending a message; usually in return for content or a service e.g. competitions, news and weather content or for mobile marketing purposes, etc." (Clickatell, 2010).

22 At the time when this product was rolled out, premium collection via airtime effectively contravened the South African regulation on e-money (see Section 5 for more discussion on this).
is covered as it was targeted at single parent families. The product is marketed in “starter pack” packaging containing policy information, a policy card and a funeral discount voucher from the Doves funeral network. The starter pack is displayed near the cashiers in-store. The client first has to purchase this starter pack and then go to a separate Money Market counter in the store to activate the policy by paying his/her first premium. Unlike the till system in Pep clothing stores, the till system in Shoprite is not advanced enough to allow the cashier to capture client details through the till. A separate recording system has to be used for this. No advice or information is provided by any of the Shoprite staff during the sales process. Client information is collected telephonically by a call centre. The product has experienced modest take up levels.

- **Vendor-based distribution through payment systems network Wiredloop.** Wiredloop is a prepaid and retail payment service provider connected to its potential clients through a network of spaza shops or small, informal vendors. It has approximately 1,200 point-of-sale terminals throughout the country, with the majority located in the Gauteng, Western Cape and Eastern Cape provinces (Mvulana, 2009). Wiredloop provides a platform for formal and informal vendors, including informal stores often referred to as spaza shops, to sell prepaid airtime, electricity and insurance from anywhere using an innovative mobile-based POS device. Cover2go, in partnership with Wiredloop, sells its *Family Burial Cover* policy through the network of Wiredloop vendors. The insurance starter packs are placed in the stores of participating vendors and clients are able to pay their monthly insurance premiums at any Wiredloop vendor. The vendors do not actively sell or verbally disclose any policy information to the client, but captures the client’s full name, cell number and identity number on purchase of the policy through the POS device, with the device communicating this back to the insurance company.

**4.4. Shoprite supermarket**

Shoprite Holdings (Ltd), the holding company of the retail group that includes well-known South African supermarkets Shoprite and Checkers, started operations in 1979. Today, the Shoprite group has expanded to 1,068 corporate and 275 franchise stores across 16 African countries and in India. The group has many differently-branded stores throughout South Africa, but is currently only selling insurance products in its 309 Shoprite stores. The Shoprite supermarket has been chosen by Shoprite Holdings as the most appropriate of its different stores to distribute low-income insurance as Shoprite has positioned itself to serve the LSM 4 – 7 market segment. While insurance products can only be purchased in Shoprite stores, clients are able to pay their premiums also at Checkers, a supermarket targeting a higher-income market than Shoprite.

Shoprite displays insurance products in-store, just before the cashier aisles. While clients are able to purchase a policy initiation pack at the cashier, all policy premiums have to be paid at a separate counter, the Money Market counter, in the store. The main objective of the Money Market counter is to enable customers to settle their daily transactions in one place (Shoprite Holdings, 2008). This initiative initially gave clients the option of buying airtime and

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23 Money Market counters can be found in every Shoprite store and are used to provide Shoprite clients with access to a range of different transactions services, including payment of television licenses, municipal accounts, the purchase of pre-paid electricity, a large number of third party service providers represented at counters.
electricity at a designated counter in the store. The original product offering has now been expanded to include money transfer products, postage stamps, water, municipal rates and taxes, theatre and events bookings, telephone accounts, lottery tickets, bus tickets, flight bookings and insurance. In addition, Shoprite also offers clients the ability to save at the Money Market counter by buying stamps (Shoprite shopping vouchers) which are placed in a savings booklets. Clients are also able to send and receive domestic money transfers at the Money Market counter through a service offered on behalf of the low-income bank, Capitec.

Box 5. Shoprite’s Money Market Counter

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

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

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

Shoprite’s insurance offering started as early as 1999 with the introduction of an HTG Life funeral insurance product. Since then, the insurance offering has evolved in a number of ways. Today, competing insurance products from three different providers are offered:

- **Old Mutual Pay-when-you-can funeral insurance.** Pay-when-you-can, an innovative flexible insurance top-up package, was launched at Shoprite Money Market counters in November 2007 and is underwritten by Old Mutual, a life insurer. It allows individuals to buy insurance on a top-up basis to a maximum cover amount of R20,000 ($2,363). The product is sold off the shelf in the form of a starter pack. Apart from an information booklet, the starter pack contains two insurance policies: Family Funeral Cover and Family Accidental Cover. After buying the starter pack, two steps are required to activate the cover:

  - **Activating the accidental cover component of policy.** After purchase of the starter pack at a price of R9.95 ($1.17), the policy is only activated once the client registers at the Money Market counter in the store by presenting his or her national identity document and the client card which was obtained with the insurance starter pack. This entitles the policyholder to 60 days accidental death cover. At the Money Market counter, the client has the

![Photo credit: Joel Carlman](image)
option to increase the accidental cover in increments of R5,000 ($590.10) at a cost of R6.95 ($0.82) each, up to a maximum amount of R20,000 ($2,363) for each 60 day period.

- Activating the funeral cover component. Funeral cover is sold on a top-up basis for a period of 12 months using the policy number obtained from the starter pack. After the client has registered for the accidental death component of the policy, he or she is able to buy top-up funeral cover from the Money Market counter. Each top-up purchase acts as a separate policy—each with a 6 month waiting period for death by natural causes—and will increase the length of time the individual is insured and, during overlapping periods, the total cover the individual will have. It is, however, important to note that given that the product only provides cover for a specified 12-month term and a 6 month waiting period applies, the client will effectively only have 6 months coverage for death due to natural causes for each top-up purchased. Therefore the policyholder needs to top up the funeral cover at least every six months to enjoy continuous cover for death due to natural causes.

Box 6. Pay-when-you-can Funeral Cover by Old Mutual

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

Purchasing and activation:
Step One: The customer buys an insurance starter pack (R9.95)
Step Two: The customer registers the starter pack at the Money Market Counter, providing their national identity document and the policy card from the starter pack.
Step Three: A beneficiary must be registered either via fax or by visiting an Old Mutual client service centre with a certified copy of the beneficiary’s national identity document or birth certificate.

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

- Cashback funeral policy by Cover2go, a division of Metropolitan Life. This product was discussed in Section 4.3 above.
The Doves family funeral policy, Shoprite’s longest standing insurance offering launched in 1999, is underwritten by Union Life. Union Life, formerly known as HTG Life, is 50%-owned by Metropolitan Holdings Limited and 50% owned by the Doves Group. The Doves Funeral Group was established in 1959 and specifically targets the low-income market. It has more than 170 funeral parlour branches nationwide.

The policy offers different levels of funeral cover that can be paid out in cash, or in the form of a funeral service provided by Doves. If the latter option is chosen, a Shoprite gift voucher of R500 ($59.08) or R1,000 ($118.15) is added to the payout (depending on level of cover). This product, unlike the other two Shoprite products, is not sold in a “starter pack” format but takes the form a more traditional policy document. The policy is available from Money Market counters where the client will be provided with a policy card and a copy of the policy document upon payment of the first month’s premium. The policy will cover the policyholder, the policyholder’s spouse and biological and adopted children.

5. Issues emerging from case studies

These case studies, as well as various other examples found in South Africa, illustrate a number of trends in microinsurance distribution:

Emphasis on “passive” distribution models. As described, South Africa’s stringent market conduct regulatory regime has contributed to the fact that most innovation in microinsurance distribution has occurred in the space of “passive” distribution models. That is, models that do not have a traditional intermediary actively selling or promoting the insurance product. Rather, the transaction is initiated by the client, often via a client aggregator such as a retailer. This means that prospective clients should be aware of insurance and what its value proposition is. Another characteristic of these models is the fact that the sales channel is also often used for premium collection, i.e. it also becomes the payment mechanism. So far these models have only been successful in selling funeral insurance and only the Pep/Hollard model has achieved any significant scale.

Retailers are increasingly being used as distribution channels. Retailer-based insurance distribution was first introduced via the HTG life insurance product sold at Shoprite at the end of the 1990s but was largely unsuccessful. Recent years have seen a number of new products being rolled out through this channel. It appears as if retailers are increasingly realising the monetary value of their brand strength. Some retailers choose to white label products of a specific insurer, for example Pep in the partnership with Hollard. Others are offering the same category of insurance products (funeral) from different insurance companies with clear insurer-branding, for example Shoprite offering competing products from Union Life, Old Mutual and Metropolitan Cover2go.

Retailers acting as intermediaries. It is possible to distinguish between two approaches to retail-based insurance distribution:
• **Tied agent approach:** For this category of retailer-based insurance distribution, the retailer (e.g. Pep with Hollard, or Jet with Hollard) partners with only one insurance company for each category of insurance provided. A white labelled product that carries the branding of the retailer is created. This approach to insurance distribution implies that the retailer exercises a choice about the type of products that would suit clients’ needs and, by offering the product of only one insurer in each category of insurance (e.g. funeral), effectively becomes an agent of the insurance company.

• **Independent agent approach:** This category of retailer-based insurance distribution is characterised by the retailer (e.g. the supermarket chain Shoprite) offering more than one product in each category of insurance. Shoprite, for example, offers three competing funeral insurance products from different insurance companies.

Given current FAIS requirements, the fact that retailers are essentially acting as insurance tied (one product only) or independent agent (more than one product in the same category) raises questions about their capacity to make product choices on behalf of their clients or advise their clients on the most appropriate products in the absence of agents of staff qualified to do so. It is possible to argue that the mere offering of an insurance product within a retail store does not constitute a product recommendation. However, the strong brands and customer loyalty of retailers (as opposed to the lower brand strength of insurance companies) creates a situation in which clients may be induced to buy an insurance product simply because it is being offered by a trusted brand, rather than it being appropriate to their needs (in the absence of a needs-based analysis and recommendation based on their situation).

**Intermediary or payment platform?** Does over-the-counter insurance sales constitute intermediation or are the retailers simply payment platforms for insurers? This becomes particularly complicated where retailers such as Shoprite offer competing products. Let us consider two cases. In the Cover2Go cell phone model, there was no intermediary. The product was advertised through posters and other marketing initiatives and the client initiated the transaction on their phone. In the Shoprite case, products are also marketed through general marketing channels and not by in-store staff. The client initiates the transaction by purchasing the starter pack and the Money Market counter only captures the details on behalf of the insurer. Shoprite then collects the premiums on behalf of the insurer. Does this make Shoprite the intermediary or simply a payment and administrative platform? Does it change the picture when Shoprite started offering competing products? This is not only an issue for retailers but will also apply to the retail payment network models.

**Retail payment networks partnered with formal and informal vendor networks emerging as new microinsurance distribution category.** In the case studies provided in this document, evidence emerged of microinsurance products, specifically funeral insurance, being distributed through retail payment system networks partnering with vendors. These vendors are often informal vendors or stores such as spaza shops found in informal settlements, and even in deep rural areas in South Africa. The vendors typically use a small, palm-sized device – in at least one case a cell phone powered by special SIM-based technology – to link to a

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24 Another example of retailer distribution that was not covered in these case studies. Jet is a low-income focused clothing retailer group that has entered into a partnership with Hollard to sell a variety of insurance products. For an earlier overview, see Smith & Walker (2006) or Bester et al (2008).
central payment platform. This allows the vendors to sell prepaid airtime and electricity. They can also sell insurance products and collect premiums. At least four examples of this type of distribution were found.

*Passive funeral distribution models may be leading to unexpected anti-selection.* At least three of the insurance models reviewed in the case studies (Pep/Hollard, Take it Eezi/Hollard and Wiredloop/Metropolitan Cover2go) experienced higher than expected mortality rates through their passive distribution approaches. However, it is not clear whether this higher than expected mortality rate is a case of anti-selection or whether mortality rates in the very low-income market, especially given the burden of HIV/AIDS, have simply been underestimated. The nature of the models lends itself to arguments for both scenarios:

- **Higher than expected mortality rates due to penetration of a yet unfamiliar market.** Because insurance products that are distributed through passive distribution models are subject to lower distribution costs, products are offered at a lower premium than products sold through other channels. This enables products to serve individuals with lower incomes than would normally be served by agent or broker-based distribution models. This is a market that has not traditionally been served by insurers and insurers therefore have limited experience with typical mortality rates.

- **Anti-selection.** These microinsurance products are written on the concept of open group policies. That means that risks are assessed on a group basis but you can become a member of the insurance group by buying a policy (i.e. no other prior bond required). They do not require any proof of income or productivity and do not ask any health-related questions, therefore there is limited control over the health status of the insured. To some extent it is based on the assumption that there will not be systematic change in the group profile of retailer clients purely because of the introduction of insurance and that the retailer client profile is therefore stable can therefore be used as basis for pricing. For at least one of the models, it has been reported that the policies were often purchased by children sent to the vendor on behalf of their parents. Therefore even bed-ridden people could ask somebody else to buy a product on their behalf and the insurer had limited control over whether the policyholder is in sufficient health to be purchasing a life insurance policy. The only real control over anti-selection is the 6-month waiting period for death by natural causes and as long as the policyholder and/or other insured was able to live beyond this, the beneficiaries would be able to claim. Arguably, all insurance products are subject to some level of anti-selection. Furthermore, for many of the insurance models reviewed in this document, take-up to date has been relatively limited and the anti-selection impact may thus be exacerbated by the small risk pool. In the case of the larger client group of Pep/Hollard it seems that the risk experience has stabilised and could be controlled by adjusting pricing.

*Cell phone distribution may not be cheaper.* In the case of Metropolitan Cover2go, the only of the case studies that collected insurance premiums via airtime, the conversion of airtime to hard currency was intermediated by a wireless access service provider (WASP). These entities generally charge quite a large fee (larger than a typical insurance commission) on the conversion process. While it may, in theory, seem that premium collection via airtime could significantly lower distribution costs in reaching low-income and remote populations (and by cutting agents from the distribution chain), it is not necessarily the case. Ironically, compared to cell phone distribution and premium deductions from bank accounts, collecting
premiums in cash through retailers who also provide the sales platform is the least expensive of the models involved.

Collecting premiums from airtime may not be compliant with banking legislation. Airtime payments as was used by Cover2Go will mean that airtime balances will be considered as a deposit and will fall foul of the Banking Act in South Africa, which restricts deposit-taking to banks. While the airtime vendor could sell separate vouchers for premiums that could be loaded via the cell phone, balances loaded for airtime may not be used for third-party purchase. If the Cover2Go model had continued it would have had to deal with this complication.

Combining a complex product with a simple channel may not meet clients’ needs appropriately. Insurance, by its very nature, is a complex product. The fact that the benefit and value of insurance lies somewhere in the future (implying the need for the use of discount rates to determine the future value in current terms) and relies on a promise by an insurance company, often explained in difficult language, can make even make the simplest of policies difficult to understand. The models covered in this study have tried to develop simplified products that meet the needs of the clients. Are these products simple enough to be sold through passive channels? For example, in an attempt to better meet clients needs some models have introduced more complexity into the product (e.g. the top-up design of the Old Mutual Pay-when-you can product).

By attempting to sell these products through a simple channel offering no advice or verbal disclosure, clients may be left confused or unable to see the value of the product, choosing not to purchase it. This may particularly be the case where competing products are offered through these channels. The complexity may be reflected in the limited take-up achieved on some models. These models are, however, still too new to come to any conclusions and their experience would have to be reviewed once it has been in the market for a sufficient period of time.

Passive channels not creating a market for new products. All of the insurance models covered in this study offer either funeral or personal accident insurance cover, as this is what the market is most familiar with. These products have a straightforward, easily verifiable trigger (death) and are simple and easy to understand. Almost none of the models have offered asset insurance. Pep/Hollard sold a cell phone insurance product when its products were first launched, but this product was cancelled due to limited take-up and interest from clients.

Battle for client taking place as more non-traditional insurance intermediaries assert client ownership. Of the models reviewed in this document, both Pep and Shoprite have strong, well-trusted brands. Insurers’ brands are less familiar in the low-income market and where they are known they are not necessarily trusted. The success of especially the Hollard/Pep model can largely be ascribed to the fact that the insurance product is Pep branded (Pep is well known for offering quality products at low prices). It is therefore likely that clients perceive the product to be a Pep product. This raises certain interesting questions and complexities. The South African insurance regulator, the Financial Services Board, has

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25 Shoprite, a supermarket chain, receives a transaction fee of 13% of the premium for every Cover2Go policy sold, while Clickatell (a wireless access service provider) received a 40% fee (of the total policy value) for transforming airtime payments to Cash for Cover2Go. Pep, a clothing retail chain, receives commission of approximately 10% each on the different funeral insurance policies sold.
signalled that it wants client ownership to rest with the insurer\textsuperscript{26}, suggesting that the insurer is better placed to look after the interest of the client. However this is not easy to achieve if clients perceive the product to be that of the distributor and will also be problematic for aggregators whose model is based on client retention and ownership. Clients’ loyalty is likely to lie with the distributor and if it so wished, the client base could be moved to another insurer. The experience of the retailer models have demonstrated that the retailer is more sensitive about its reputation in the market and are incentivised to ensure value is offered to their client. It may, therefore, not be correct to assume that the insurer is more likely to act in the client’s interest.

For providers already established in microinsurance business, microinsurance innovation will not necessarily be impacted by absence of Charter targets. Insurers interviewed for this study view the low-income market as a very real business opportunity. The Financial Sector Charter and its commitments to serving the low-income market provided an initial impetus for product and distribution innovation to reach a yet unserved market. The possibility that the Charter may fall away does not seem to provide a reason for these insurers to stop innovating. Interestingly, some insurers have said that the lessons learnt in creating simple products for the low-income market and distributing these products through a lower cost and faster way will allow them to also better serve their higher-income clients. Thus, some view microinsurance experimentation as a way to improve their insurance offering across the board. For insurers not actively engaged in microinsurance business (such as many of the asset insurers in South Africa), however, the absence of Charter targets is likely to have a real and significant impact on their willingness to commit resources to microinsurance experimentation.

**Bibliography**


\textsuperscript{26} For example through the “binder agreements” to be introduced under the Insurance Laws Amendment Act of 2008. It is largely aimed at regulating administrators that are outsourced entities used by insurers to handle all product administration and, in some cases, also product design and development.


