CASE STUDIES ON THE USE OF ALTERNATIVE MODELS FOR THE DISTRIBUTION OF MICROINSURANCE IN COLOMBIA

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1. FOREWORD

The case studies presented in this document form part of a series of case studies on alternative, innovative microinsurance distribution models prepared for the International Labour Organization's Microinsurance Innovation Facility. Cost-effective distribution at scale is one of the biggest challenges in a low-premium environment where customers typically are not familiar with insurance. In the quest to effectively reach a large client-base, the emphasis is increasingly falling on innovative new distribution models as alternative to traditional broker and agent sales. This focus note series takes stock of the alternative distribution models emerging internationally. There is no template for what qualifies as an alternative distribution model, as the diverse, innovative and evolving nature of such models is what defines them. Some features are, however, commonly shared across models. Therefore we define alternative distribution models as meeting the following criteria in choosing the models to be included in the case study series:

- *Scale through concentration*: Ability to achieve scale through targeting large client concentrations, i.e. specific non-insurance client groups such as clients of retailers, cell phone companies, utility companies, etc.
- *Presence of infrastructure footprint*: Where entering into partnerships with organisations 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. store buildings) or technological (e.g. a cell phone network).
- *Transaction platform*: The sales channel typically doubles as premium collection platform, e.g. adding premiums onto a utility bill.
- *Standalone voluntary product*: Models distribute voluntary insurance products sold on an "opt-in" rather than "opt-out" basis. That is: 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 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.

2. INTRODUCTION

Microinsurance faces several challenges in achieving its potential to mitigate the risks of low-income households. Some of the largest challenges relate to distribution: diversifying the distribution channels used, minimizing distribution cost and reaching a large number of people. There are several models or channels for microinsurance distribution: the classic broker and agent sales models, as well as various alternative distribution channels, an area that has seen much innovation over recent years. Many of these alternative delivery channels are not yet well developed and there is no consensus yet on what the most effective channel will be for different risk categories. For this reason, it is important to take stock of those models that have been implemented thus far to get a better understanding of what the drivers of success are.[1]

From the variety of passive models found in Colombia, the following were selected as case studies due to their particularly innovative nature:

- the partnership between Codensa, an electricity utility company, and the insurance company Mapfre;
- the model developed by the Carrefour supermarket chain with insurer Colseguros; and
- the partnership between the gas utility company Gas Natural and the insurance companies Chartis and Alico.

The report draws on information gathered during a number of interviews with these microinsurance providers, as well as other organisations entering the insurance distribution space, such as retailers or utility companies. The information from the interviews is supplemented by publicly available information on these providers and their distribution channels, for example, from websites and annual reports of the insurance industry association (Fasecolda). Given that the case studies will all be placed in the public domain, sensitive data that provide a true reflection of the success and value of different models and products, e.g. number of policies sold, claims ratios, policy persistence, profit, etc, could not always be included. Where companies were willing to share this data, it is included in the case studies below.

3. MICROINSURANCE CONTEXT IN COLOMBIA

There are 44 registered insurers in Colombia: 42 companies and 2 cooperatives. In 2009, the insurance industry generated total gross general insurance premiums of USD 2.7 billion and total gross life insurance premiums of USD 2.5 billion

The Fundamental Law of the Financial System, the governing legislation of insurance in Colombia, makes no reference to microinsurance and there is no official microinsurance definition. However, microinsurance as found in Colombia, is generally in line with the internationally accepted definition of microinsurance as formulated by the IAIS/Microinsurance Network Joint Working

[1] See Dercon and Kirchberger (2008).

Group on Microinsurance (2007)[2], namely "insurance that is accessed by or accessible to the low-income population, potentially provided by a variety of different providers and managed in accordance with generally accepted insurance practices".

In Colombia, the tool most often used to classify the population is socioeconomic stratification. This tool classifies the people into different strata or socioeconomic groups, according to the characteristics of their housing and circumstances. Although this stratification is undertaken mainly for the purpose of charging differential rates and assigning subsidies for residential public utilities, it has also been used to orient the development of social programs. Thus, it is used as an indicator of people's socioeconomic situation. The stratification operates on a scale from 1 to 6 (fewer needs). The relationship between income brackets and strata shows that the majority of the people in income brackets 1 and 2 (people with lower incomes) live in homes located in strata 1, 2, and 3. Often, these three strata would form the target audience for microinsurance products.

Though the supervisory authority does not collect information specifically on microinsurance, such information is collected through the Microinsurance Monthly Survey carried out by Fasecolda, the insurance industry association.[3]

According to Fasecolda data, the microinsurance market in Colombia has grown gradually since the beginning of the decade. At the moment, roughly 15 insurance companies, including the two cooperatives, are players in the microinsurance market. The microinsurance premiums written in 2009 accounted for 1.3% of the total insurance industry's premiums and 4.1% of total premiums written for life and assets products.

Microinsurance premiums written reached a total of USD 65.1 million in 2009 across 2,935,056 policyholders. The average value of a microinsurance premium in 2009 was USD 22, with an average insured value per policyholder of USD 6,420. The gross claims ratio for microinsurance was 47% in 2008, reducing to 35% in 2009 (Table 1):

[2] Note that this was previously known as the IAIS/CGAP Joint Working Group on Microinsurance.

[3] It should be noted that Colombian legislation on Asset Laundering Risks and the Financing of Terrorism establishes a maximum insured value and premium paid below which the companies are not required to comply with KYC rules. These values are estimated in terms of the minimum monthly wage (MMW). For the insured value the maximum amount is 135 (MMW) which in 2009 is equivalent to USD34.763, and for the premium paid the bimonthly limit is USD21.

Table 1

Summary of Microinsurance in Colombia

		Dec-08	**Dec-09**
Premiums Written per Year	Dollars	56 351 331	65 132 247
Current Insured Risks*	Number	2 465 671	2 935 056
Average Premium	Dollars	23	22
Current insured value	Dollars	11 963 759 280	18 843 250 689
Average insured value	Dollars	4 852	6 420
Ratio	%	0.47%	0.35%
Claims paid per year	Dollars	26 481 709	22 930 200
Claims incurred per year	Dollars	26 887 457	25 058 435
Number of claims paid per year	Number	23 227	25 126
Average value of claims paid	Dollars	1 140	913
Average value of claims incurred	Dollars	1 158	997
Gross Claim Rate	%	46.99%	35.21%
Claim rate incurred	%	47.71%	38.47%

Source: Fasecolda. Banco de la República for exchange rate. 2008: COP1.966,3; 2009: COP2.156,3.
These figures do not includ Cardif and La Equidad which do not report information.
*Current insured risks refer to total policyholders and includes collective policies
Ratio: Average premium/Average amount insured
Gross claim rate: Claims paid/Premiums written
Claim rate incurred: Claims incurred/Premiums written

The bulk of the microinsurance market is still centred on life products (funeral, group life and personal accident), while asset insurance products are less popular. The largest microinsurance product categories, in terms of percentage of total microinsurance premiums written, are: funeral (44%), group life (30%), personal accident (19%) and other products (7%). The last group includes fire, earthquake, theft, home, education and health insurance.

In Colombia the majority of microinsurance products are distributed through non-traditional channels. In terms of the number of insured (policyholders), the main distribution channel in 2009 was utility companies (44%), followed by microfinance institutions (24.7%), cooperatives (17.3%) and bancassurance (7.6%). Supermarkets and large retailers accounted for 2.3% of the number of insured.

The four insurance companies considered in this document collectively hold a relatively large share in the Colombian insurance market. In the general insurance sector their share of total gross premiums written was 18% in 2009 and in the life insurance sector their collective market share was 14.5% (Table 2). Their role is even larger specifically in the microinsurance industry. In 2009, these four companies had a collective share of 50% of total microinsurance premiums written and 57.5% of microinsurance policyholders (Table 3).

Table 2

TOTAL PREMIUMS WRITTEN FOR THE COLOMBIAN INSURANCE INDUSTRY IN 2009
Millions of Dollars

GENERAL INSURANCE COMPANIES	Total Premiums	% Share
Colseguros	228	8,5%
Chartis Seguros de Colombia S.A.	90	3,3%
Mapfre	174	6,5%
Total	493	18,3%
TOTAL FOR COMPANIES IN SECTOR	2.695	100,0%

LIFE INSURANCE COMPANIES		% Share
Colseguros	125	5,1%
Alico Colombia S.A.	56	2,3%
Mapfre	175	7,1%
Total	356	14,5%
TOTAL FOR COMPANIES IN SECTOR	2.450	100,0%

Source: Financial Superintendency. Banco de la República for exchange rate. 2008: COP1.966,3; 2009: COP2.156,3.

Table 3

PREMIUMS WRITTEN AND NUMBER OF INSURED WITH MICROINSURANCE 2009
Millions of Dollars

COMPANIES	Microinsurance	% Share
Colseguros	11,6	17,8%
Chartis Seguros de Colombia S.A.	10,5	16,1%
Alico	0,1	0,2%
Mapfre	10,6	16,2%
Total	32,8	50,3%
TOTAL FOR MICROINSURANCE	65,1	100,0%

Number of insured

COMPANIES	No of Insured Microinsurance	% Share
Colseguros	470.136	16,0%
Chartis Seguros de Colombia S.A.	783.224	26,7%
Alico	59.892	2,0%
Mapfre	373.880	12,7%
Total	1.687.132	57,5%
TOTAL FOR MICROINSURANCE	2.935.056	100,0%

Source: Fasecolda. Banco de la República for exchange rate. 2008: COP 1.966,3; 2009: COP 2.156,3.

The next section examines the first of the three channels covered in this document, namely the distribution partnership between the public electricity retail utility, CODENSA, and the general and life insurer, Mapfre. Through this partnership, thousands of CODENSA clients have gained access to microinsurance products. The sub-sections below examine the nature of the partners and partnership, the products provided and how they are distributed, as well as the factors that have contributed to the success of the model.

4. CODENSA-MAPFRE CASE STUDY

a. Organisational information

i. The companies

CODENSA is the largest electricity distribution company in Colombia. There are more than 15 electric power companies in Colombia who operate in different regions or cities. CODENSA covers Bogotá, where it has about 2 million customers, and 96 nearby municipalities. In doing so, it provides approximately 22% of the national electricity supply.

CODENSA is a mixed capital company (private and public). It was created from Empresa de Energía de Bogotá, which used to be the Bogotá local government's electric power company. In the second half of the 1990s, as part of an electric power sector liberalization strategy, the government decided to separate the electric power generation, supply and distribution businesses into three independent companies and to search for private investors to capitalise these companies. CODENSA emerged to manage the retail business with a capital injection from the Endesa Group of España, a world leader in the electricity sector. Currently, private participation in the company is 48.5%.

The emergence of CODENSA took place in the context of a broader government policy aimed at privatising the provision of public utilities in order to increase efficiency and coverage, given the precarious financial situation at the time of the majority of state-owned enterprises. This resulted in strong competition amongst public utility companies to sign up customers before the market gradually opened up to include the participation of different private companies in the provision of public utilities such as telecommunications, electricity and gas.

In response to this increased competition, CODENSA has since 2002 been developing a customer loyalty programme to strengthen its customer base. A core component of the strategy is to offer customers alternative, non-electricity products that can be paid through their electricity bill. This entails offering clients subscriptions to different publications (newspapers, classified advertisements etc.), as well as the option to buy insurance products. In order to develop their insurance offering, CODENSA entered into a partnership with Mapfre Insurance in 2003. Initially, Mapfre generated all the ideas and proposals for insurance products whose premiums could be collected via the electricity bill. As a result of its interest in customer loyalty, CODENSA has, however, lately started to play a more active role in the design of the insurance products offered to its customers, and has used surveys and focus group research to better gauge the needs of clients.

Mapfre is part of the Spanish Mapfre Group, whose activities are concentrated in the insurance and pension business. The insurance company entered the Colombian market in 1984 by buying shares in Seguros Caribe, a general insurer. In 1995, with the acquisition of the majority shareholding, MAPFRE SEGUROS GENERALES DE COLOMBIA S.A. was set up. Then, in 1999, MAPFRE COLOMBIA VIDA SEGUROS S.A., a life insurance company, was set up. The business objectives of Mapfre include taking an innovative approach to the provision of insurance products. In the specific case of microinsurance, this has translated into a 16% share of premiums written for this type of product and a 13% share of the number of insured (as indicated in Table 3 above).

ii. The partnership

The partnership between CODENSA and Mapfre has been in place since 2001. Each of the companies receives a return for its participation in the partnership. CODENSA contributes its customer base, brand and premium collection mechanism to the partnership. For its part, Mapfre is responsible for designing and underwriting the insurance products. As previously stated, in recent years, CODENSA has started to identify different types of needs among its customers and has played a more active role in suggesting the design of products that meet these needs to Mapfre.

During the consultations, CODENSA pointed out that over the course of the partnership Mapfre has developed an important understanding of risk in the microinsurance market. This has enabled it to offer tailored products required by CODENSA for its customers – something that not many insurance companies are able to do. This has contributed to the strength of the partnership. CODENSA sees this partnership as a large first step in providing insurance to the base of the income pyramid in Colombia and it hopes to move on to a second stage of developing niche insurance products for more specific market needs.

The partnership has also been advantageous to Mapfre: it has enabled it to successfully penetrate the microinsurance market segment and the CODENSA billing system has provided it with an efficient premium collection mechanism.

b. The product

The products offered by CODENSA and Mapfre meet a large portion of the needs for income strata 1, 2 and 3 as identified in CODENSA's market research. CODENSA and Mapfre have tailored the CODENSA insurance products according to these needs, for example: asset insurance products that provide dedicated household content insurance (not combined with house structure insurance), which are suitable for families with rental housing, as well as insurance for older vehicles. In total, five types of insurance products are currently offered through CODENSA, all based on monthly premiums: (i) life; (ii) personal accident; (iii) funeral; (iv) home; and (v) vehicle. Below, we consider each in turn.

The **Protección Codensa Life Insurance** product has monthly premiums that vary from USD 2 to USD 27 according to the type of plan and cover (see Table 4). People are not excluded from buying the life insurance on the basis of pre-existing conditions such as an illness and will remain policyholders as long as they pay their premiums. Customers can choose the plan that they prefer according to the level of cover and the number of people to be covered by the policy[4]. The total cover is for all the persons covered combined. Claims can either be in a lump sum, or in the form of monthly payouts over a period of 12 months:

Table 4

CODENSA INSURANCE PROTECTION - LIFE INSURANCE

PLANS	**Monthly Premium (dollars)**					
	Option 1	**Option 2**	**Option 3**	**Option 4**	**Option 5**	**Option 6**
Principal insured only	2	3	5	7	10	12
Principal insured plus spouse	3	5	8	12	16	19
Principal insured, spouse and childrer	4	6	11	16	21	27
COVER	**Cover (dollars)**					
Insured value	1 769	2 527	4 869	6 956	9 275	11 594
Monthly Payout*	51	101	146	186	232	278

*Corresponds to a monthly pay out during 12 months for the death, due to any cause, of the principal insured.
Source: www.codensa.com.co. Exchange rate for 2009: COP 2.156,29 from Banco de la República.

The **Codensa Personal Accident Insurance** product covers total permanent disability due to an accident, but also includes coverage against temporary disability. In the latter case, the insured receives a monthly payout for the duration of the disability up to a stated maximum. Two plans

[4] This product has been offered since 2009. By 2010 coverage will be offered different according to each plan.

are provided: a personal plan covering a single policyholder and a family plan that also provides cover for a spouse and children[5].

The minimum age of entry is 18 and the maximum age of entry is 65 years. It is possible to continue with the plan up to the age of 70, after which the policy will be cancelled. Only children between the ages of six months and 24 years may be covered under the Family Plan. Table 5 below gives more detail on the policy features for both the individual and family products.

[5] Under Colombian common law, cohabitation confers marital status on a couple, even if they are not legally married. Therefore spouses and children born under a common law marriage may also qualify for family policies.

Table 5

CODENSA INSURANCE PROTECTION - PERSONAL ACCIDENT

Dollars

PERSONAL PLANS	**Plan 1**	**Plan 2**	**Plan 3**	**Plan 4**
Monthly premium	2	3	4	5
Cover		**Insured value**		
Accidental death	9 574	15 304	20 876	26 962
Total and permanent disability due to accident	9 574	15 304	20 876	26 962
Temporary disability, monthly pay out due to accident*	295	295	295	295
FAMILY PLANS	**Plan 1**	**Plan 2**	**Plan 3**	**Plan 4**
Monthly premium	3	4	5	6
Cover		**Insured value**		
POLICYHOLDER				
Accidental death	7 458	11 099	14 343	17 886
Total and permanent disability due to accident	7 458	11 099	14 343	17 886
Temporary disability, monthly pay out due to accident*	295	295	295	295
SPOUSE				
Accidental death	3 729	5 549	7 172	8 943
Total and permanent disability due to accident	3 729	5 549	7 172	8 943
Temporary disability, monthly pay out due to accident*	123	123	123	123
CHILDREN				
Accidental death	1 147	3 498	5 164	6 924
Total and permanent disability due to accident	1 147	3 498	5 164	6 924
Temporary disability, monthly pay out due to accident*	49	49	49	49

*Starting 30 days after the insurance comes into effect. Maximum of two events per year covered, each with a maximum of 60 days. Deductible 5 days.

Source: www.codensa.com.co. Exchange rate for 2009: COP 2.156,29 from Banco de la República.

The monthly premiums for the personal plan start from USD 2 with sum assured of USD 9,574. The monthly payout received in case of an accident causing temporary disability is USD 295. For the family plans monthly premiums start from USD 3 with insured values of USD 7,458 for the policyholder, USD 3,729 for the spouse and USD 1,147 for children.

Three **funeral insurance plans** are offered, all with the same level of cover (see Table 6):

- **The Basic Traditional Family Plan**. It covers children between of the ages of 6 months and 26 years, as well as a spouse. The spouse cannot be older than 70 years at the time of entry into the plan.
- **The Basic Traditional Family Plan with parents**. In this plan, the parents of the principal insured and his/her spouse are also covered, but must no older than 75 years at the time of subscription;
- **The Extended Traditional Family Plan**. This plan allows the policyholder the choice to extend the cover and the maximum age of subscription for two family members. These family members could be the spouse, children, brothers or sisters, uncles or aunts, cousins, nephews or nieces, or grandchildren, subject to a maximum age at entry of 70 years.

Table 6

CODENSA INSURANCE PROTECTION - FUNERAL

Dollars

PLANS	**PERSONS INSURED**	**Monthly premium (dollar)**
Traditional family and parents	Policyholder, spouse, children, parents and in-law	6
Basic traditional family	Policyholder, spouse and children	2
Extended traditional family	Policyholder and two family members (spouse, children, brothers, sisters, aunts, uncles, cousins, nices, nephews or grandchildren)	5
Plus additional cover for accidental death and homicide	1 670	12 pay outs of USD139

Source: www.codensa.com.co. Exchange rate for 2009: COP 2.156,29 from Banco de la República.

There is no age limit for remaining in any of the funeral plans, with the exception of children, who may only remain in the plan until their 26th birthday.

The cover provided is in the form of a funeral service, with no option of a monetary pay-out. It covers all services related to the funeral, namely: legal proceedings; transferring the deceased to his/her city of residence; preparation of the body; a hall for the body wake; a chest or coffin with printed tape; a hearse; the church service; a vehicle for persons attending the funeral; a wreath and funeral notice; and, finally, the cremation or burial itself. The insurance company contracts these services with a funeral service provider and pays the service provider directly. The monthly premiums will vary from USD 2 to 6. The insurance also includes additional cover for accidental death or homicide of USD 1,670, which will be divided into 12 payouts of USD 139.

Home insurance is a product designed to meet the needs of different customers by differentiating between house structure and household contents insurance. Different products are offered for property owners and tenants, since the latter are only interested in insuring household contents and not the structure. The products provide cover against damage to the house structure and household contents and also cover the household content against theft (but only for income strata 3, 4, 5 and 6, that is, not the lowest income brackets) and home emergencies such as flooding. As a public utility company, CODENSA has detailed information on the socioeconomic stratification of its customers because this is the basis on which public service fees are charged. For this reason it can segment its client base to offer insurance coverage with different characteristics by income strata.

Premiums range from USD 0.26 to USD 0.43 for every USD 464 in insured value (Table 7):

Table 7

CODENSA INSURANCE PROTECTION - HOME

Dollars

PLANS		Premium for every USD464 insured
Home contents for aggravated theft	Up to 20% of the contents for income strata 3, 4, 5 & 6	0.26
	Up to 30% of the contents for income strata 2, 3, 4, 5 & 6	0.34
	Up to 40% of the contents for income strata 2, 3, 4, 5 & 6	0.43
Home contents for eathquake, tremor, fire and other natural disasters or disturbances		0.43
Home contents for earthquake, tremor, hailstones, strong winds, lightning strike, fire and disturbances		0.43

Source: www.codensa.com.co. Exchange rate for 2009: COP 2.156,29 from Banco de la República.

People can choose their own level of cover, in multiples of USD464, by paying a higher premium.

The last product offered is **vehicle insurance**. In Colombia it is common for lower-income people to have very old cars that they use primarily for work. As this product is focused on old cars, comprehensive cover is not offered. This is designed in modular levels that are appropriate to the amount the customer can afford to pay, so it is likely that someone who buys the most comprehensive coverage is not in the lowest income level. There are two options:

- The Assistance Plan includes tow truck services, windows, legal advice and mechanical assistance, among others, with monthly premiums starting from USD 8.42.

- The Assistance + Civil Liability Plan provides cover up to USD 162,316 for damage to third party property, USD 162,316 for personal injury and death during a motor vehicle accident, and up to USD 324,632 for death of or injury to two or more people during a motor vehicle accident.

c. Intermediation Process

Due to its interest in keeping its electricity customer base satisfied, CODENSA plays an active role in sales and marketing, as well as in product administration.

The partnership's insurance products were initially marketed through the CODENSA sales force (face-to-face), a call centre and the CODENSA Service Centres. The last option, however, did not work well due to a misalignment of incentives: service centre staff is, in the first instance, focused on resolving service issues rather than selling insurance. Therefore the use of service centres as insurance sales channel was discontinued in early 2009. Nevertheless, if incentives could be aligned this channel has obvious potential for insurance distribution due to the large volumes of customers that contact these sites.

Different marketing techniques are employed. Initially, a pamphlet with insurance product information was included in the electricity bills sent out to clients, but the popularity of this form of direct marketing has decreased. Currently, marketing is conducted mainly through telephone calls and through the CODENSA sales force (face-to-face). The customer database is used to identify prospective clients based on their income strata and to locate them geographically in the city. Prospective clients are contacted telephonically about the product. Once they have indicated that they are interested, a sales agent may be sent to their home to try and sell the product to them.

The CODENSA sales force also operates on a door-to-door basis in parallel to the call centre marketing drive. The CODENSA sales force is trained by Mapfre in the technical aspects of insurance necessary for assessing the customer. CODENSA also provides the team with training in sales and marketing. At first, CODENSA and Mapfre planned to also use the geographic database used to distribute public utility bills as a way for the insurance sales force to efficiently identify and reach selected target households in lower-income areas. However, the database had a number of limitations, which led to the current strategy of geographical placement of the insurance sales force. That is, the sales force is deployed on a neighbourhood by neighbourhood basis rather than targeting individual households.

All the marketing channels are administered by CODENSA (though Mapfre also provides some marketing support) and the customers are offered a CODENSA-branded product, underwritten by Mapfre. As is evident from the tables above, each insurance product is identified as a PROTECTION CODENSA product.

Product administration is performed by both companies. Claims are made via the CODENSA call centre and Mapfre manages the operational aspects of claims payment. Claims payment is made by a cheque issued to beneficiaries. Therefore beneficiaries do not need to have a bank account to receive a payment. Although Mapfre can also support administrative issues such as policy cancellation, CODENSA is the main role player in this process.

Mapfre issues a group policy to CODENSA, the beneficiaries of which are the customers of the public utility company. Thus it is a direct sale from the insurance company[6] and, as such, complies with the relevant intermediation regulation.

d. Success of the channel

Although we have been unable to obtain updated data on the number of policyholders for each of the Mapfre microinsurance products sold by CODENSA, we have some data for 2008 which was presented at the 4th International Microinsurance Conference hosted in Bogota, Colombia in November 2008, as well as the aggregate data per distribution channel collected by Fasecolda.

According to Bejarano (2008) more than 300,000 families made monthly insurance premium payments with their electricity bill between 2001 and 2008. 90% of them belong to social strata 1, 2 and 3. More than 30,000 claims were paid to such clients over the period in question. 33% of the policies sold through this channel were funeral policies, followed by the extended warranties (24%), life (18%), household (15%) and personal accident insurance (10%).

According to CODENSA, its experience with insurance has been generally good. Initially disappointing sales volumes prompted CODENSA to conduct direct market research to determine the specific needs of customers, specifically considering the risks and needs that are particularly relevant for income strata 1, 2 and 3, which comprise the poorest population. Based on the lessons learned, a number of changes were brought about to the product features.

In addition to the market and feasibility studies, the sales and marketing techniques were analysed and the value chain was reviewed in order to improve customer satisfaction. In particular, the two companies wanted the customers to feel that the insurance products are tailored to their needs and meet their expectations at the claims stage.

As a result of all of the above, the products have become profitable and a reasonable claims ratio has been achieved.

[6] Directs sales refer to insurance products sold directly by the insurer without tied agents or brokers, for example, through telemarketing, direct mail, or call centres. Sometimes this involves insurers selling products through their employees without such employees being considered agents or brokers. This is allowed under Art. 5 of the Fundamental Law of the Financial System and Art 2 Decree 2605, 1993.

As proxy for specific data on the CODENSA model, Table 8 shows the main figures for the Mapfre microinsurance business and the general figures available for the distribution of microinsurance through public utility companies. Although it was not possible to obtain detailed information by products and channels from Mapfre, the figures indicate growth in both the premiums and in the number of people holding microinsurance policies with Mapfre, which reached 373,880 in 2009.

In addition, the figures for microinsurance distribution through public utility companies show that both the premiums and the number of policyholders grew between 2008 and 2009 to reach a total number of policyholders of 1,290,137.

Table 8

Mapfre microinsurance business figures

	2008	2009
Total Microinsurance Premiums Written (USD)	8 368 527	10 561 010
Number of Insured	243 750	373 880
Average premiums per person (USD)	34	28

Figures for entire public utility company distribution channel

	2008	2009
Premiums Written (USD)	19 182 611	25 382 068
Funerals	6 859 876	7 513 414
Group Life	4 503 423	6 157 242
Personal accident	5 201 804	8 014 089
Others	2 617 507	3 697 323
Number of Insured	903 572	1 290 137
Funerals	175 369	223 414
Group Life	260 020	318 662
Personal accident	256 735	397 078
Others	211 448	350 983

Source: Fasecolda. Banco de la República for exchange rate. 2008: COP 1,966.3; 2009: COP 2,156.3.

e. Drivers of success

According to CODENSA the factors that have had a positive effect on the evolution of this channel are as follows:

- The fact that no intermediaries such as traditional brokers and agents are over and above the CODENSA sales force has helped to keep down costs.

- The distribution channel understands the market. Motivated by its desire to build customer loyalty, CODENSA has played an active role in the design of the insurance products offered to its customers and has conducted surveys and focus group among its customers to better understand their needs.
- In addition to the above, a central reason for success is the quality of information that CODENSA has about its customers. This allows it not only to identify potential microinsurance clients by income strata, but to also differentiate products according those strata.
- Furthermore, the success of the model is facilitated by an alignment of interest between the two partners on a number of fronts:
    - Both CODENSA and Mapfre have a particular interest in developing microinsurance and getting the business model right. This commitment and drive by both parties is essential to make the partnership work.
    - Both reap benefits from the partnership. This means that both have an incentive to maximise profitability. Although there is no information on the profitability of the products, CODENSA emphasized that this partnership has been beneficial to both parties and has allowed them to make the necessary adjustments to keep the products sustainable.
    - Both parties have focused on developing their customer service to make the insurance processes flexible and efficient for the customer.
    - Both the insurance company and the distribution channel participate in the information systems used to administer the product. The two partners therefore have joint control over a central business tool.

5. CARREFOUR-COLSEGUROS CASE STUDY

This section examines the distribution partnership between the retailer, Carrefour, and the life and general insurer, Colseguros. This partnership has enabled Colseguros to gain access to a large distribution channel for its low-income market targeted insurance product and to sell it in a way that is facilitating the spread of microinsurance in Colombia. The sub-sections below examine the nature of the partners and partnership, the products provided and how they are distributed, as well as the factors that have contributed to the success of the model.

a. Organisational information

i. The companies

Carrefour, a French chain of supermarkets and retail outlets, has been present in Colombia since 1998. Large international operators began to enter the retail distribution sector in Colombia in the mid-1990s as part of a global trend of retailer business expansion led by the four largest chains globally: Wal-Mart, Carrefour, Metro and Tesco. This process accelerated from around 2003, as the country started to recover from the economic crisis of the late-1990s, resulting in increased competition for customers.

Carrefour currently has approximately 46 stores in 25 Colombian cities. In 2008, it reported revenues of USD1.6 billion to the Superintendence of Companies in Colombia. Since 2005, it has followed a strategy of opening supermarkets in low-income areas and city sectors that had previously been ignored by large businesses. It also developed a store format adapted to the clients in those areas. For example, following the example of small neighbourhood stores, the low-income Carrefour stores will stock smaller packages/units of goods that can be bought with smaller amounts of money.

Carrefour began to sell personal accident insurance as part of its strategy to offer its customers a diverse range of discounted products and services, all carrying the Carrefour brand, in order to strengthen customer loyalty. The expanded service offering includes: fuel bought at gas stations endorsed by Carrefour, services at certain travel agencies, goods from certain drugstores, insurance products and various consumer loan programs.

Colseguros is an insurance company founded in Colombia in 1874. In 1999, the Allianz Group, the multinational insurance company, became a shareholder in Colseguros. Currently Colseguros is a company within the Allianz Group. It offers both life and general insurance.

Colseguros currently accounts for 8.5% of total premiums written in the general insurance industry and 5.1% in the life industry, as seen in Table 2, Section 3. Its share in total microinsurance premiums collected in Colombia in 2009, as measured by Fasecolda, is approximately 18% and it accounts for 16% of all microinsurance policyholders (Table 3, Section 3). Within Colseguros, microinsurance premiums comprised roughly 3% of total premiums (life and non-life combined) in 2009. No disaggregated data is available is available for life and non-life premiums.

ii. The partnership

The Colseguros-Carrefour partnership has been in place since 2007. It is an exclusive agreement whereby Carrefour may only sell Colseguros insurance products and, unlike in the CODENSA-Mapfre example, Carrefour’s role is limited to the provision of the distribution channel. The insurance company uses the capacity of the store to distribute microinsurance and collect premiums. In turn, it contributes its insurance skills to the partnership, is responsible for product design and underwriting and handles the claims process.

The main product offered is personal accident insurance sold at the cash registers in-store.

For Carrefour, the partnership is a mechanism to complement the other services offered to its customers. It also receives a return (in the form of a commission) on the products sold through this channel. For Colseguros, the partnership with Carrefour is advantageous for a number of reasons:

i) By providing an efficient premium collection system and a large low-income retailer client base, the partnership allows Colseguros to focus on the microinsurance customer segment.

ii) The system allows Colseguros to identify customers that repeatedly purchase insurance at the checkout and to approach them directly through other channels such as their call centre or through door to door sales. Whenever the cash register prints a policy receipt, the information is automatically entered into the Carrefour database. Carrefour supplies this information to Colseguros on a monthly basis.

iii) Customers that ask about other products are referred to an agent who has an information and sales desk at the supermarket, but is a Colseguros employee. Home insurance policies and some life insurance policies are offered at this sales desk. Therefore the limited and simple product offering does not constrain the overall model.

b. The product

Colseguros currently sells at least three insurance products through Carrefour, a personal accident policy named "Personal Accident Rounding Off" sold at the cashiers, as well as a home insurance product and a life insurance product sold through an in-store kiosk/information desk[7]. The analysis carried out in this section will focus on the Personal Accident Rounding Off policy.

[7] The kiosk, which is manned by a Colseguros employee, is not used for the Personal Accident Rounding Off product but for customers asking about other products Although, it was not possible to obtain data from products sold through the

The Personal Accident Rounding Off policy is branded as a Colseguros product sold by Carrefour. The product's sales pitch as presented on Carrefour's web page gives a good indication of what it is about:

"What can I do with my change at Carrefour? At Carrefour the rounding-off up is for you. When you buy something at our stores, the cashier will always offer you the opportunity to buy life insurance for you or any other member of your family [with your change]".

It provides cover for accidental death (for the policyholder only) for a period of 30 days. The level of cover is proportional to the value of the change that the customer receives for his/her purchase and will therefore depend on the amount of change. For example, for 20 US cents of change, cover of approximately USD 650 will be provided. The amount of change used as premium payments has ranged from USD 0.10 to USD 0.50. The customer could also opt to buy cover for more than the change, but this rarely happens. Information supplied by Colseguros indicates that in 2009 the Personal Accident Rounding Off insurance had 2,802,941 policies with an average premium of USD 0.20 per policy. Note, however, that one person may buy cover more than once a year. It is therefore not possible to say how many policyholders this figure represents.

The product does not require any declaration of insurability[8] and does not have any exclusions. That is: all Carrefour customers will be eligible to buy the policy. The customer's subscription to the policy is recorded on the checkout receipt. The receipt serves as policy document and it is this receipt that must be used to make any claims. As the sales process is designed to be agile and quick, no beneficiaries are named, and anybody who produces the receipt and proof of accidental death of the policyholder can make the claim. The receipt contains all key information like the level and duration of cover, as well as a call centre number and the procedure to follow in the event of a claim. Claims are paid by check to the beneficiary, who does not need a bank account. Carrefour does not play any role in the claims process or in resolving complaints. This is the exclusive domain of Colseguros.

According to Colseguros the target market is all the people who pass through the cash registers at the supermarket, be they high, middle, or low-income, as all of them will be offered the insurance product. However, a combination of factors ensures that the model is focused on the low-income market:

i) *The nature of the supermarket chain*. Carrefour belongs to the *hard discounter* class of supermarkets, which to a large extent serves customers with medium or low incomes;

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sales desk, it was established that it represents only a small proportion of the total business generated through Carrefour the channel. The Personal Accident Rounding Off policy represents the bulk of the business.

[8] A statement made by the insured of any circumstances that may influence their risk profile or whether the insurer accepts them as a policyholder.

ii) *The level of cover*. The small change used as basis for the premium does not generate a high enough level of cover to be attractive high-income customers. They therefore prefer to buy traditional insurance products purchased through traditional channels.

c. Intermediation process

The supermarket checkout staff is trained by the insurance company so that they can promote the product in a clear and quick way while counting up the customer bill. Staff members receive a commission for sales. The payment method (cash, credit or debit card) used by the client does not have any effect on the purchase of insurance[9]. The sales process is designed to be fast and efficient because there is a line of customers waiting to pay for their purchases. The customer is asked if he/she wishes to purchase personal accident life insurance cover for one month with their change and is only informed about the insured value and cover duration, no other specific information is provided because the product is very simple. If the customer agrees to make the purchase, he or she must provide his/her personal contact information to the cashier. The checkout receipt printed (via the cash point, not through a separate device) is also the policy document and must be retained in order to make a claim. No additional information or marketing materials are provided to the customer.

Carrefour reports the premiums written and the customers' personal details to Colseguros on a monthly basis so that the insurance company has the information necessary to handle claims.

The sale complies with the conditions under Colombian insurance regulation for direct sales by the insurance company since it is a collective policy issued in favour of Carrefour, whose beneficiaries are its customers.[10]

d. Success of the channel

Information supplied by Colseguros indicates that the Personal Accident Rounding Off product has been successful in terms of policy uptake and profitability. Risk experience has also been positive for the insurance company: only 43 claims were received for the 2,802,941 policies issued in 2009 (note, again, that no data is available on the number of policyholders, which is likely to be significantly lower).

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[9] For example, should somebody buy a product for $5.80 and opt to pay with a credit or debit card, he/she will still be offered the option to round the payment off to $6 and pay the $0.20 towards an insurance premium.

[10] Colombian intermediation regulation permits the insurer to sell insurance directly without tied agents or brokers. Sometimes this involves insurers selling products through their employees without such employees being considered agents or brokers. In this case Colseguros directly sells Carrefour a collective police that covers its clients (Art. 5 FLFS and Art 2 Decree 2605, 1993).

Table 9 below shows the figures for the Colseguros microinsurance business, those for microinsurance sales through stores and large retail outlets for the entire industry, and those obtained for 2009 from Colseguros specifically for the Personal Accident Rounding Off business.

The figures show that Colseguros had 470,136 microinsurance policyholders in 2009. Information was not available for the number of Personal Accident Rounding policy holders (the 2.9m figure is total monthly *policies issued)*. The personal accident microinsurance figures for the stores and large retail outlet distribution channel, as a whole (not just Colseguros), show a number 51,060 policyholder for 2009 and premiums written amounting to USD 631,409. According to information from Colseguros the total value of premiums written of the Personal Accident Rounding Off policies in December 2009 was USD 629,308, so Colseguros accounts for virtually the all of the retailer insurance industry's personal accident premiums.

Table 9

Data on total Colseguros microinsurance business*

	2008	2009
Total Microinsurance Premiums Issued (USD)	8 352 965	11 619 216
Number of Insured	614 417	470 136
Average premiums per person (USD)	14	25

Data on entire industry's stores and large retail outlet distribution channel*

	2008	2009
Premiums Written (USD)	1 069 441	1 100 548
Funerals	1 373	(464)
Group Life	26 650	1 252
Personal accident	763 378	631 409
Others	278 041	468 351
Number of Insured	309 669	66 702
Funerals	2 691	1 703
Group Life	13 674	-
Personal accident	277 704	51 060
Others	15 600	13 939

Main figures for Colseguros-Carrefour Personal Accident 2009**

	2008	2009
Number of PA rounding policies	n.d.	2 802 941
Premiums written (USD)	n.d.	629 308

* Source: Fasecolda. Banco de la República for exchange rate. 2008: COP1.966,3; 2009: COP2.156,3.

** Source: information obtained directly from company

e. Drivers of success

In the insurance company's experience there are four main factors that have facilitated the growth of this product:

i. *Simplicity.* The product is simple to understand and affordable to most people.

ii. *Very low claims rate*[11]. The reasons for the low claims rate include that it is a monthly product and people forget what the coverage term is. Furthermore people lose the cash register receipt in which the policy is printed or simply do not inform family about the policy. While this is positive from the insurer's perspective, it questions the real value of the product in mitigating risks for consumers.

iii. *Premium collection*. The retailer distribution channel provides an efficient way of resolving the problem of collecting premiums in the mass market. This is one of the main plus points of this model.

iv. *Consumer education*. By offering each customer a simple, affordable insurance product, this channel promotes consumer education about insurance and the concept of protection against risks. However, the very low claims rate indicates that it may be necessary to educate customers more and better about the term of the policy and the claims process.

Not all was positive from the start. Colseguros initially found that, as it uses a third party sales force (the Carrefour cashiers), it was not fully in control of achieving its own growth targets. Specifically, the high turnover of the Carrefour checkout staff affected product sales and led to a permanent need to train new staff. Furthermore, the fact that checkout staff themselves did not receive commission on insurance sales meant that there was limited incentive for them to sell the product. Taking these lessons on board, a checkout staff commission was introduced. An incentive was also provided to supermarket managers to motivate check-out staff.

6. CHARTIS-ALICO-GAS NATURAL CASE STUDY

This section provides a case study of the distribution partnership between the gas retail public utility, Gas Natural, and the sister insurance companies, Chartis (general) and Alico (life). Through these partnerships, thousands of Gas Natural clients have been reached with microinsurance products. This case study is different from the other two cases in this document in that the partnership was facilitated by an insurance broker. The sub-sections below examine the nature of the partners and partnership, the products provided and how they are distributed, as well as the factors that have contributed to the success of the model.

[11] According to Fasecolda information in 2009 the claim rate incurred for the insurance industry as a whole was 65.2% , but for microinsurance it was only 37.8%.

a. Organisational information

i. The companies

Gas Natural is a public utility company founded in 1987 with the aim of serving any type of energy need of its customers. Initially, it was majority owned by ECOPETROL, the state oil company in Colombia. At the beginning of the 1990s, Empresa de Energía de Bogotá, the electricity utility owned by the Bogotá municipal government, also bought a share. At the end of the decade, as part of government's privatisation policy, the state oil company sold its share to the Gas Natural Group from Spain. The Gas Natural group is a multinational energy services company whose principal activities are the supply, marketing and distribution of natural gas in Europe and America. In Colombia, Gas Natural handles the distribution and sale of gas to households in Bogotá and the bordering municipalities of Soacha and Sibaté, serving more than 1,500,000 customers.

Chartis and Alico are two insurance companies that form part of the global group, AIG Holdings. They have been in operation for several decades in Colombia under the brand names AIG Colombia Seguros Generales S.A. (general) and AIG Colombia Seguros de Vida S.A (life), respectively.

- Alico Colombia Seguros de Vida S.A. has been present in the Colombian market since the 1970s. At the end of the 1990s, it adopted the name AIG Colombia Seguros de Vida S.A. and kept it until April 2009, when the multinational company took several global strategic decisions. In Colombia it was decided to separate the life insurance company from AIG Inc. and the name was changed to that of the head office American Life Insurance Company, ALICO.
- Chartis Seguros Colombia S.A, for its part, has also been present in the Colombian market since the seventies under the brand name AIG Colombia Seguros Generales S.A. Since 2009, it has used the brand name Chartis.

Chartis had a 3.3% share of the total premiums written by general insurance companies in Colombia in 2009 (Table 2, Section 3), while Alico's premium share in the total life market stood at 2.3%. In the microinsurance market, specifically, Chartis plays a larger and Alico a smaller role than in the insurance market at large: in 2009 Chartis had a 16.1% share of total microinsurance premiums written and accounted for 26.7% of all microinsurance policyholders. Alico had a share of only 0.2% of total microinsurance premiums written and 2.0% of the total microinsurance policyholders (Table 3, Section 3).

ii. The partnership

Chartis and Alico have had a commercial collaboration agreement with Gas Natural since around 2003. The insurance companies were looking for a channel that would give them mass access to customers and that would facilitate premium collection. An alliance with a public utility company with a broad customer base in Bogotá was regarded as an ideal opportunity to achieve that.

For Gas Natural, the alliance provides an opportunity to strengthen customer loyalty. Gas Natural's customer base includes a significant percentage of people from the low-income levels. This is due to the income structure in Colombia, as well as the emphasis that the government's official energy policy has placed on supplying gas to the poorest areas of cities to replace the use of more hazardous combustibles[12].

The partnership is facilitated by an insurance intermediary. The model therefore includes a commission to the intermediary (set as a percentage of premiums) as well as a fee for the public utility company for supplying the distribution channel and performing premium collection.

b. The product

Both companies sought to design insurance products that are easy to understand. There are five types of products, providing: i) personal accident; ii) cancer; iii) serious illness; iv) home; and v) small and medium-sized business cover. All products are identified with the word Natural, which refers to the Gas Natural brand. However, the client is informed that he/she is buying a product of Chartis or Alico. The brands of all three companies appear on the product advertising so the product has a shared brand name: Chartis-Gas Natural or Alico-Gas Natural, depending on the product. The premiums are charged on a monthly basis, added to the gas bill.

The target market is the total Gas Natural customer base, not just the low-income segment. Nevertheless, the product design is focused on the needs of the low-income population, informed by market research done by the insurance companies specifically on this segment.

Below, we consider the features of each of the products in turn:

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[12] In 1986, the Colombian government created the "Gas for Change" program. This program sought to initiate a process of mass distribution of gas in the central region, with emphasis on Bogotá and Soacha, to solve the serious problems that mainly the low income population had with the use of highly hazardous fuels. Likewise, the government wanted to provide the population with alternative energy sources that are less expensive and environmentally cleaner. Simultaneously, several discoveries of gas fields improved supply prospects and allowed government to extend the program to other areas of the country (http://portal.gasnatural.com).

The **Personal Accident** product is offered by both Chartis and Alico with no differences in structure and characteristics. This product can be for an individual or a family. It covers the insured in the case of accidental death or injury due to an accident that results in total, permanent disability (see Table 10).

Table 10

NATURAL INSURANCE - PERSONAL ACCIDENT
Dollars

PRODUCT	Insured value range	Minimum monthly premium individual	Minimum monthly premium family
Individual or Family. Covers accidental death or an accident that results in total and permanent disability.	8 348 to 37 101	1.57	2.31

NATURAL INSURANCE - PERSONAL ACCIDENT PLUS
Dollars

PRODUCT	Insured value range	Minimum monthly premium individual	Minimum monthly premium family
Individual or Family. Covers accidental death of the principal insured and/or spouse. Beneficiaries will receive funeral expenses as well as 12 monthly payouts for day to day expenses. In addition, the whole family will be covered for fracture of the upper and lower limbs due to an accident.	6 493 to 19 014	1.49	2.41

Source: http://portal.gasnatural.com. Exchange rate for 2009: COP 2.156,29 from Banco de la República.

The family options cover the wife/husband and children of the policyholder as well. The insured value ranges from USD 8,348 to USD 37,000, depending on whether the individual or family option is chosen and the level of cover selected. The minimum monthly premium is USD 1.57 for individual cover and USD 2.31 for family cover. The customer is also given the option of buying Personal Accident Plus. This includes funeral expenses and, in addition, 12 monthly payouts for household expenses. The minimum insured value is USD 6,493 with a monthly premium of USD 1.49 for individual cover and USD 2.41 for family cover.

Secondly, both Chartis and Alico[13] offer **cancer** insurance through Gas Natural with no differences in structure and characteristics. The trigger for the policy is a first-time cancer diagnosis. Payout is

[13] Note that, despite these companies being jointly owned, this is not a combined product offering. The two companies have separated business for microinsurance and follow different sales strategies. The two products therefore compete with one another.

in the form of an indemnity to assist with the costs that could accrue for the treatment of the illness. The insured receives a fixed sum of money for use in the treatment of the disease, it can be for medical examinations, chemotherapy or purchase of medicines, but no specific use is dictated. The cover ranges from USD 6,596 to USD 23,188 with a minimum monthly premium of USD 2.20 (see Table 11 below).

A similar product, called **serious illness** insurance, offers an indemnity payment upon the diagnosis of any of the following illnesses:

• Myocardial infarction: Death of part of the heart muscle as a result of a deficient blood supply.

• Heart artery surgery: Open heart surgery to repair two or more coronary arteries by means of a by-pass or for a heart problem resulting in the need to correct stenosis or occlusion of the coronary arteries, based on the results of a coronary angiogram. Angioplasty (the procedure used to open blocked or narrowed heart arteries) and/or the placing of stents shall not be considered to be heart artery surgery.

• Major organ transplant (heart, lungs, liver, pancreas, kidney or bone marrow): transplant of the above organs due to irreversible damage to any of them.

The insured receives a pre-determined sum of money that is independent of the actual medical costs incurred and that can be used for any expenses associated with medical treatments or buying medicines, regardless of the disease diagnosed. No specific use is prescribed for the money. The cover provided ranges from USD 6,596 to USD 11,594, depending on the premium, with a minimum monthly premium of USD 2.35.

More information on the cancer and serious illness policies is provided in Table 11:

Table 11

NATURAL INSURANCE - CANCER

Dollars

PRODUCT	Insured value range	Minimum Monthly premium
The policyholder will receive a payout in the case of being diagnosed with cancer for the first time.	6 956 to 23 188	2.20

NATURAL INSURANCE - SERIOUS ILLNESS

Dollars

PRODUCT	Insured value range	Minimum Monthly premium
The policyholder will receive a payout upon the diagnosis of myocardial infarction, heart artery surgery (except angioplasty) and major organ transplant (heart, lungs, liver, pancreas, kidney or bone marrow).	6 956 to 11 594	2.35

Source: http://portal.gasnatural.com. Exchange rate for 2009: COP 2.156,29 from Banco de la República.

Another product in the Gas Natural range is the **Home Insurance** product provided by Chartis. It covers the policyholder's house structure and/or contents (only those belonging to the insured) against, amongst others, the following perils: fire and/or lightning, earthquake, tremor, volcanic eruption, explosion, flooding, avalanche or landslide, hailstones, accidental breakage of windows and sanitary units (10% of insured value), and malicious damage by third parties.

It also provides cover for electrical and electronic equipment owned by the insured and protected inside the place of dwelling against damage caused by fluctuations in the electricity supply (see Table 12 for more detail).

Table 12

NATURAL INSURANCE - HOME

Dollars

PRODUCT		**Insured value range**	**Minimum monthly premium**
Cover for home buildings and contents in case of fire and/or lightning strike, earthquake, tremor, volcanic eruption, explosion, flooding, waterlogging, avalanche or landslide, hailstones, accidental breakage of glass and sanitary units (10% of insured value), or malicious damage by third parties.	Buildings	15 304 to 76 250	3.48
	Contents	2 551 to 25 507	1.07
	Buildings and contents*		4.09

Source: http://portal.gasnatural.com. Exchange rate for 2009: COP 2.156,29 from Banco de la República.

*The available information does not specify if the insured value for buildings and contents is the sum of the first two. It only specifies the minimum monthly premium.

The minimum insured value for buildings is USD 15,304 with a monthly Premium of USD 3.48. In the case of home contents the minimum insured value is USD 2,551 with a monthly premium of USD 1.07. The minimum monthly premium to cover buildings and contents is USD 4.09. The client can choose the level of cover simply by paying a higher premium.

Lastly, Chartis offers a product for **Small and Medium-Sized Businesses** through Gas Natural. This product covers the buildings and/or contents of the business against events such as fire, explosion, earthquakes, damage by third-parties, flooding, wind damage, hurricane damage, vehicle impact and hailstones. In addition, **Extra-contractual Civil Liability** cover is included to cover damage to third parties and aggravated theft (by force or intimidation) of insured items. The available product information does, however, not specify what the level of this coverage is. Table 13 summarizes the small and medium-sized business policy information.

Table 13

NATURAL INSURANCE - SMALL AND MEDIUM-SIZED BUSINESSES

Dollars

PRODUCT		**Amount insured range**	**Minimum monthly premium**
Buildings (structure) and/or contents of the business against events including: fire, explosion, earthquake, damage by third parties, flooding, strong winds, hurricane, impact by vehicles and hailstones. Additional cover for Extra-contractual Civil Liability to cover damages to third parties and aggravated theft of insured items.	Contents	4 638 to 46 376	2.91
	Buildings	23 188 to 139 128	3.59

Source: http://portal.gasnatural.com. Exchange rate for 2009: COP 2.156,29 from Banco de la República.

The contents of the business premises can be insured for an amount ranging from USD 4,638 to USD 46,376 with a minimum monthly premium of USD 2.91. The buildings at the site where the business operates can be insured for an amount ranging from USD 23,188 to USD 139,128 with a minimum monthly premium of USD 3.59. In both cases, the client can choose the level of cover by paying a higher premium.

c. Intermediation process

The Chartis/Alico-Gas Natural insurance products are distributed through three different sales methods:

- Through a door to door sales force trained by the respective insurance company (Alico or Chartis). The salesperson identifies his/herself to the client as acting on behalf of Alico and Gas Natural or Chartis and Gas Natural, depending on the product.
- Telesales through the insurance companies' call centres, using the Gas Natural customer database.
- Through the Gas Natural service centres. Gas Natural has service centres to deal with problems related to billing and payment of gas services and to provide customer service, including all additional services offered to its clients like the technical installation of gas services, technical reviews, etc. The service centre infrastructure is also used to sell insurance.

Occasionally campaigns are conducted in which publicity and information material is distributed with the gas bill, but this option is not used very often, because experience has demonstrated the need for direct contact with the customer. Particularly, in the Alico interview, it was stressed that lack of personal client interaction resulted in the failure of campaigns conducted through brochures.

All sales people (those doing face-to-face sales, as well as those working in call centres) are trained by the insurance companies. The same sales process is followed in both the call centre and face to face models: once the customer expresses interest in purchasing the insurance, he or she is informed that the premiums will be charged monthly on the gas service bill. The client also receives a policy document which will be needed to make a claim.

Product administration is performed independently by Chartis and Alico for their respective products. Claims are submitted at Gas Natural service centres or through the Chartis and Alico customer service lines. Claims are paid by cheque.

The sale of the product complies with the regulations on intermediation since it constitutes a direct sale to the customer by the company[14].

d. Success of the channel

The claims rate for the insurance products offered through the Gas Natural channel differs by type of product, but respondents in both insurance companies consider the products to be profitable over the medium term. On the whole, profitability of microinsurance products is less than that of traditional products not so much because of high claim rates, but due to the costs associated with the promotion, sale and distribution of products with low premiums. Nevertheless, the large sales volumes and high persistency levels have enabled the Gas Natural products to be cost-effective. Profitability is directly related to the renewal rate. Only with a high renewal rate can the sales costs associated with each product be recovered. Alico indicated that the persistency rate for its products is around 65% after 7 years. In general terms, Alico also considers the risk experience of its microinsurance products to be similar to those of traditional products, but no specific information was provided.

Table 14 shows the figures for the total microinsurance business of Chartis and Alico, as well as the figures for microinsurance sales through public utility companies in general. This serves as a proxy for specific information on the success of the Gas Natural products, which was not available.

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[14] As mentioned above, directs sales refer to insurance products sold directly by the insurer without tied agents or brokers, for example through telemarketing, direct mail, or call centres. Sometimes this involves insurers selling products through their employees without such employees being considered agents or brokers. This is allowed under Art. 5 of the Fundamental Law of the Financial System and Art 2 Decree 2605, 1993.

Table 14

Data for total Chartis and Alico microinsurance business

Chartis

	2008	2009
Total Microinsurance Premiums Written (USD)	7 163 295	10 475 029
Number of Insured	492 297	783 224
Average premiums (USD)	15	13

Alico

	2008	2009
Total Microinsurance Premiums Written (USD)	102 733	121 876
Number of Insured	44 934	59 892
Average premiums (USD)	2	2

Figures for entire public utility company distribution channel

	2008	2009
Premiums Written (USD)	19 182 611	25 382 068
Funerals	6 859 876	7 513 414
Group Life	4 503 423	6 157 242
Personal accident	5 201 804	8 014 089
Others	2 617 507	3 697 323
Number of Insured	903 572	1 290 137
Funerals	175 369	223 414
Group Life	260 020	318 662
Personal accident	256 735	397 078
Others	211 448	350 983

Source: Fasecolda. Banco de la República for exchange rate. 2008: COP 1,966.3; 2009: COP 2,156.3.

The figures show that in 2009, Chartis's microinsurance operations covered 783,224 insured people, versus just 59,892 for Alico. This difference can mainly be ascribed to the fact that Chartis has been participating in the microinsurance market for a longer time. Both companies' total number of microinsurance policyholders grew between 2008 and 2009 in line with a general growth trend in the distribution of microinsurance through public utility companies. After several years of operation, the concept of utility company distribution has now been firmly established among customers and premiums and policyholders in this channel are growing steadily. Chartis and Alico are enjoying the benefits of this trend.

e. Drivers of success

In the opinion of the insurance companies, the factors that affect the positive experience of the sale of these products are:

- *Simple products with few exclusions*. If products are simple and do not exclude certain people based on their risk profile or prior conditions, it is more attractive to customers, thereby helping to achieve the large sales volumes needed for such a low-premium model to be viable. At the same time, it removes the cost of assessing and filtering out clients.
- *Understanding the distribution channel and learning from past experience*. It is essential for the insurance company to have a very good understanding of the distribution channel and to design a strategy appropriate to the channel. For example, the Alico respondent highlighted the limitations of using brochures inserted in the utility bill for mass marketing campaigns. It emerged that a lack of personal client interaction undermined that kind of campaigns, because customers do not understand the products they buy, and then often have unrealistic expectations when making claims. Therefore the company decided to assign a greater role to face to face sales techniques.
- *Efficient premium collection*. This is the main advantage to be derived from this distribution channel. It allows the insurers to serve unbanked clients and to efficiently collect premiums that have low value.
- *Central role of the distribution partner*. In addition to its role in premium collection, Gas Natural plays a core role in the model by providing information to the insurer that allows it to target customers by income strata. However, the role of the distribution channel should not be limited to providing a database and collecting premiums. It is essential that it also actively participates in market development and customer service.

The importance of face-to-face interaction. As indicated above, one of the biggest challenges that has had to be overcome is to find an appropriate and efficient mechanism of contacting customers. For example, it has emerged that telesales has limitations, especially when dealing with low-strata customers who have no knowledge of insurance. The insurance companies' experience with telesales is that when claims were received it was evident that the customers did not have a clear understanding of the product they had purchased. The experience with face-to-face-sales has been better. One of the companies indicated that their advisors in some cases had to visit a client more than once to make a sale. During the first visit, visual contact is established with the customer, an assessment can be made and the customer can be given the opportunity to think about it (for example, if she is a housewife she can discuss the decision to purchase with her husband), with a second visit then scheduled to close the sale of the product. Such intensive face to face sales processes increase sales costs, but may have other benefits down the line. The companies are continuously tweaking the distribution channel based on ongoing analysis of costs and benefits.

7. CONCLUSIONS

Colombia has shown a gradual growth in microinsurance through various distribution channels, some of which are considered alternative channels, such as supermarkets and public utility companies.

The three case studies analysed in this study provide important lessons on how to unlock the potential of these types of distribution channels and to effectively deliver microinsurance to the low-income population. Based on the three case studies, the following cross-cutting drivers of success of alternative distribution channels can be identified:

- The products offered must be very simple and, if possible, should not contain any exclusions. If exclusions are deemed necessary, they should be as few as possible. This is needed to achieve a larger volume of sales and to minimize the cost to the insurer of selecting customers.
- There must preferably not be any intermediaries like traditional brokers and agents in the business, as adding an additional step in the value chain could increase the cost of products vis-à-vis a direct sales arrangement with a sales force working directly for the partnership.
- The business must be important and beneficial to both the distribution channel and the insurance company. This means that the partnership will be sustained over time and that both parties will work together to improve the model.
- The level of support provided to the partnership by the distribution channel is fundamental. Its role should not be limited to providing a database and collecting premiums. It is essential that it also actively participates in product development and customer service. In particular, the CODENSA case illustrates the important role of the distribution channel in assessing market needs and requesting the insurer to bring about innovative product changes on the basis of such insights.
- The distribution channel and the insurance company alike must have a good understanding of the market they are entering. This allows them to develop products that meet the needs of the target market and reap the best potential gains out of the partnership.
- The insurance company must have a very good understanding of the distribution channel and develop a strategy tailored to the specific distribution channel. It must also be willing to take on board lessons from initial experience and adapt the distribution techniques accordingly. One of the greatest lessons that have emerged in alternative distribution in Colombia is the need for personal client interaction, be it face to face (first choice) or through a call centre.

Although at first direct mail campaigns with brochures inserted into the utility bill was considered the desired approach to reach scale through utility distribution, companies in both the utility partnerships considered now see better value in personal interaction with the customer to provide them with adequate information on products.

- The two parties must develop their customer service such that all processes are streamlined and efficient for the customer. The client must be able to turn to both the distribution channel and the insurance company with queries, because both are perceived to be behind the product from the client's perspective.
- Both the insurance company and the distribution channel must participate in the information systems that administer the product.

The case studies also highlight a number of challenges to such alternative distribution partnerships. These include:

- The insurance company could face limitations in achieving its product sales growth targets if it places sales squarely in the hands of a third party, as it then has limited control of the product sales dynamic. For example, in the Carrefour case all insurance sales are conducted by supermarket employees. The insurance company only interacts with the client when he/she contacts the call centre or makes a claim. The challenge therefore is to insure that the sales channel properly represents the insurer and conveys the right information. This highlights the importance of commitment by the distribution channel to the partnership as well as of staff training.
- Cost-effective client communication has also been highlighted as a challenge. While door to-door sales are desirable, this increases origination costs. Cheaper techniques such as telesales may have limitations in achieving client understanding, especially in lower income strata who have limited knowledge of insurance.

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