Case Study: Metropolitan Cover2go

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

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1. Introduction

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

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

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

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

Lessons from Cover2Go. This case study highlights the Metropolitan Cover2Go experience in the microinsurance market. It illustrates the following themes and issues:

- the attempts of one insurance company to experiment with different alternative distribution channels, relying on varying levels of technology in different models; and

- the difficulty of achieving high levels of take-up through passive distribution channels, especially for products such as personal accident insurance with which the target market may not be familiar.

2. About the Institution

Metropolitan Holdings Limited, the listed holding company for insurance and financial services provider Metropolitan Life (a long-term insurance company), was founded in 1898. 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 established as innovation hub. Cover2go, a division of Metropolitan, was established in 2006 to provide innovative products to the lower-income market segment that may not traditionally have access to insurance products or do not want to make use of a broker (Cover2go, 2009). It was established as an innovation hub outside the Metropolitan headquarters. In order to encourage innovation, it does not share management information systems (MIS) with Metropolitan headquarters (which is often subject to the drawbacks and inflexibility of legacy information systems) but operates off its own information network (Africa, 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.

3. About the products and channels

Metropolitan Cover2go has created accidental death and funeral cover for the lower income market using three non-agent based distribution channels. These channels and their different products are discussed in greater detail below and include the following:

- Retailer-based distribution through the lower-income market targeted supermarket chain Shoprite;
- Vendor-based distribution through the payment systems network Wiredloop; and
- Cell-phone based distribution.

3.1. Retailer-based distribution: Shoprite

Innovative product design. Metropolitan Cover2Go launched its *Cashback Funeral Policy*, distributed through Shoprite stores, in November 2008. It is currently Cover2go's largest distribution channel (Pead, 2009). It is unique in that it offers policyholders the opportunity to receive all their premiums paid back at the end of the policy's five year term in the event that the principle policyholder does not die during this period. However, the "cashback" component is dependent on the policy not lapsing due to missed premiums at any stage during the five year term. The policyholder is given a grace period of 30 days to catch up on any missed premiums. The policy does not have a limit on the amount of biological, step, legally-adopted or common-law children that can be added to the policy. However, the only adult that is covered is the policyholder and the policyholder's spouse or partner would therefore not be covered. The product design has been specifically structured to address the realities of single-parent families (Fastmoving, 2008). The premiums and benefits can be summarised as follows:

	Premium per month	Funeral Benefits	Age	Cover/ premium ratio[1]
Cashback Funeral Policy	$5.91[2] (R49.99)	Main member - $1181.50 (R10,000) Child dependent – $236.30 (R2,000)	18 – 49*	320.06
	$8.86 (R74.99)	Main member - $1181.50 (R10,000) Child dependent – $236.30 (R2,000)	50 – 64*	213.36

Table 1: Cashback Funeral Policy information

Source: Cashback Funeral policy document, 2009

**The the age of the policyholder at the date the policy purchase*

A prospective policyholder needs to take two steps to obtain insurance cover:

- *Buying the insurance starter pack*. The *Cashback Funeral Policy* is sold in the form of a starter pack. It is available inside the retail store at a price of $1.06 (R8.99) and can be bought along with other products at the cashier. The starter pack includes a discount voucher from the Doves funeral network[3], but no funeral cover is included in the price of the starter pack.
- *Activating funeral cover*. After buying the starter pack, individuals have to take their national identity documents, the policy card contained in the starter pack and the first month's premium to the Money Market Counter[4] in any Shoprite store in order to activate the policy. This can be done either immediately in-store, or at a later stage

Once the policy has been activated, it is the responsibility of the policyholder to phone the call centre to nominate the beneficiary. Premiums are payable at the Money Market counter, in cash only. Premiums can be paid up to 3 months in advance and policyholders receive a monthly short message service (SMS) message to remind them of the amount payable and the date that the premium is due.

6 month waiting period. Once the first premium is paid, a standard 6 month waiting period applies. During this period individuals are covered against death from accidental causes. If the individual dies of natural causes in the first six months, all premiums will be paid back in full. No medical examination or exclusions (other than age) apply.

Claims process. The beneficiary of the insured deceased can claim by contacting the Cover2go call centre. The call centre consultant will talk the individual through the process of making the claim. Claims can only be paid out into a bank account nominated by the beneficiary.

Distribution of roles between insurer and retailer. Shoprite acts as a distributor, premium collector and client registration vehicle for Metropolitan Cover2go's *Cashback Funeral Policy*.

[1] This product contains a savings component and thus cover/premium ratio might be misleading in judging the overall value of the policy

[2] 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.

[3] Doves funeral group is a funeral undertaker network with 170 branches across the country. The voucher provides a discount on funerals of more than $413.53 (R3,500) in value. It provides a R500 discount benefit on Doves funeral/cremations costs between R3500 – R6999; a R1000 discount on doves funeral/cremation costs of more than R7000; and a R2000 discount on Doves funeral/cremation costs of more than R7000 for senior citizens over the age of 60 years.

[4] Specially dedicated counter in-side every Shoprite store where individuals can pay utility bills, conduct money transfers, buy prepaid electricity and cellular airtime, pay and register insurance and various other related services.

Shoprite buys the insurance starter packs from Cover2go and distributes them at the retail price of $1.06 (R8.99). Shoprite receives a transaction fee of $0.77 (R6.50) for every premium payment. This corresponds to 13% of the premium for the policy options for 18 to 49 year olds, and 8.67% on the policy options for 50 – 64 year olds.

Take-up. Take-up levels have been modest.

3.2. Vendor-based distribution: Wiredloop

About the distribution channel. Wiredloop[5] is vendor-based prepaid and retail payment service provider. 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 located in South African townships and often referred to as *spaza* shops, to sell prepaid airtime, electricity and insurance from anywhere using an innovative GPRS device.

The policy. Cover2go, in partnership with Wiredloop, sells its *Family Burial Cover* policy through Wiredloop vendors. Funeral cover of up to $590.75 (R5,000) for the policyholder, spouse and children is provided at a monthly premium of $2.36 (R20) (see table 1 below). The product has no limits on the number of children that can be added and no exclusions other than age apply. The product takes the form of a starter pack and contains the insurance policy booklet, a policy card and a Doves funeral discount voucher to the value of $236.3 (R2,000).

	Premium per month	Cover	Age	Cover-to premium ratio[6]
Family Burial Cover	$2.36 (R20)	$590.75 (R5,000) $177.23 (R1,500) $59.08 (R500)	18 – 64 3 – 21 >3	750

Table 2: Family Burial policy details
Source: www.cover2go.co.za

Insurance activation consists of the following steps.

- Clients must buy the insurance starter pack from the vendor at a cost of $2.36 (R20). This constitutes the first month's premium. With the purchase, the client must present his/her national identity document to the vendor.
- The client will then open the starter pack to obtain his/her policy number.
- The vendor will register the client using the point-of-sale terminal to link the policy number to the individual client's identification number, cell phone number, name and surname.
- The client will receive a receipt of payment from the vendor.

Vendor regarded as administrative entity rather than true intermediary[7]. According to Wiredloop, the vendor or spaza shop operator fulfils the function of a non-advice intermediation service and performs a purely administrative role during the sale of the

[5] Wiredloop is a subsidiary of Sandulela Telecoms International (Pty) Ltd, found in 2003 in South Africa.
[6] Cover is considered to be the maximum amount the policy would pay out given the accidental death of a whole family of 2 parents, 3 children between the ages of 3 – 21 and one child under the age of 3
[7] Wiredloop is not registered as a financial services provider (FSP) or juristic representative of another FSP.

insurance cover. The operator is only responsible for distributing the starter pack and capturing the ID number, cell phone number and full name of the client.

Commission. The vendor receives an administration fee of $1.06 (R9) on the initial registration amount of $2.36 (R20) (Wiredloop, 2009). After registration, the vendor receives a $0.35 (R3) handling fee each month from the $2.36 (R20) premium. These fees equate to 45% of the policy registration amount and 15% of monthly premiums, respectively. Fees are paid to the vendor through a discount arrangement (i.e. the vendor will buy the product at a discount from Wiredloop and sell the product at the agreed retail price).

Take-up. Product take-up has been slow with only a few hundred policies sold to date (Pead, 2009). Cover2go officially terminated the sale of its insurance product through Wiredloop during May 2009.

3.3. Cell phone-based distribution

Personal accident product launched during high car accident fatality period. Cover2go offers 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 many South Africans working in the cities travel far to spend time with their families in rural areas. 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 industrial theatre and product promoters talking to commuters at the rank. The insurance product provides cover for a 30 day period in the case of accidental death, to the value of $1,772.25 (R15,000). It is sold at a once-off premium of $1.18 (R10) (see table 3 below).

	Premium per Month	Cover	Age	Cover-to premium ratio
Accidental Death Cover (only principle member covered)	$1.18 (R10)	$1,772.25 (R15,000)	>18	15000

Table 3: Accidental Death policy details

Source: www.cover2go.co.za

Policy activated via SMS. New clients only have to send an SMS with their name and national identity number to a premium rated short code[8] shared with potential clients through various advertisements in the popular media, press and 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 policyholders' cell phone number to confirm activation. The confirmation SMS contains the policy number, requests clients 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 SMS sent to Cover2go for policy activation purposes can be sent from any of South Africa's four cellular network providers[9], whether the individual is a pre-paid or contract subscriber. The

[8] Premium rated short codes are codes, rather than phone numbers, to which an SMS can be sent. The sender is then charged a higher amount than the standard SMS rate. It is commonly used in the payment of goods and services, for entry into competitions, or for making donations.

[9] Vodacom, CellC, MTN and Virgin Mobile.

cover is instant and no further interaction with the insurance company is needed for the duration of the cover.

Premium collection. Clickatell[10] provides the platform for premium collection through the premium rated short code and SMS notifications. Clickatell receives 40% of the total premium as a fee for their services in the premium collection and SMS communication process (Pead, 2009). Clickatell receives the airtime and is able to convert this into currency, which is paid over to Cover2go.

Marketing material. Shortly after its pilot, the product was advertised at taxi ranks through promoters, posters, pamphlets, and industrial theatre.

Claims payment. Claims are paid into a bank account nominated by the beneficiary. In cases where a client does not have a bank account, the claim can be paid in cash directly to them.

Low take-up. Due to disappointing take-up, the product is no longer actively advertised, except for information on the Cover2go website. Yet take-up is still ongoing, albeit on a limited basis.

4. Factors impacting on success of Cover2go's models

Retailer-based distribution: Shoprite

Healthy partner-agent relationship. The relationship between the retailer, Shoprite, and Cover2go appears to be healthy and proactive. Shoprite provides Cover2go with access to a low cost distribution network servicing a vast client base. Shoprite is an established retailer and provides Cover2go with predictable (although not exclusive) points of sale and premium collection mechanisms.

Tailored product. Furthermore, as Shoprite initiated the relationship with Cover2go and actively participated in the product design, one could argue that the product is possibly more suited to Shoprite's distribution channel and target market than a product designed in isolation would be.

Product design may not suit everyone's needs. Yet there are certain designed elements that have proved challenging. Cover2go's Cashback funeral policy only covers one adult. Though it creates a lower cost option for single parent households and was designed specifically with this market in mind, it presents a challenge if the policy owner is married or has a life partner, The fact that Cover2go does not offer a complete family option through Shoprite stores forces families with two adults who want to make use of the policy to take out two policy options, leading to double cover for children dependents and, subsequently, higher costs.

Product design may discourage product activation. The fact that a potential policyholder has to go through two steps in order to obtain insurance cover (first purchasing the starter pack, after which they have to pay the first premium), may discourage clients from completing the product activation process. Cover2go has experienced a relatively low starter pack activation

[10] Clickatell is a Wireless Application Service Provider (WASP) that facilitated premium collection through the use of a premium rated short code.

rate (number of first premiums paid relative to activation packs sold) and this could be a signal of low levels of product comprehension.

Cashback nature of product may aid in managing risk pool. According to management (Pead, 2009), Cover2go's Cashback funeral policy has experienced favourable claims rates. While not necessarily discouraging bad risks, the Cashback nature of the product could encourage good risk individuals to join.

Box 1. Metropolitan Cover2Go

Established: 2006

Purchasing Options: Three distribution channels, three products

- Shoprite stores – Cashback Funeral Policy
- Wiredloop vendor network – Family Burial Cover
- Cell-phone based distribution – Accidental Death Cover

	Successes	Shortcomings
Shoprite – Cashback Funeral Policy	• Healthy partner relationship between Cover2Go and Shoprite • Tailored product – Shoprite initiated the relationship and actively participates in designing it. • Cashback nature of the product may aid in managing risk pool by attracting good-risk clients.	• Product design does not suit everyone's needs. (eg. Only one adult is covered). • Complicated activation process may discourage take-up.
WiredLoop – Family Burial Cover		• The temporary nature of some vendors makes distribution and premium collection difficult. • Higher than expected levels of mortality, perhaps due to little information about the health of the policy-holder. • Limited customer trust in spaza shop vendors. • No incentives for vendors encouraging them to sell the product.
Cell-phone based distribution		• No face-to-face interaction. • Cell-phone distribution is expensive due to the marketing required, and costs associated with airtime conversion.

Vendor-based distribution: Wiredloop

Temporary nature of some vendors makes distribution difficult. The experience with rural and urban vendor distribution has been tricky at an industry-wide level. *Spaza* shops have not proved to be a reliable form of insurance distribution for Cover2Go due to the often temporary nature of their operations (Pead, 2009). Spaza shops may be open the one day and closed the next. The owners may decide to move house and therefore also their shop. Concerns have furthermore been raised about vendors' ability to provide predictable channels and operating hours for clients to pay their monthly premiums.

Higher than expected mortality through spaza shop network. Cover2go has experienced higher than expected mortality rates for the funeral insurance product sold through the Wiredloop network. People often send their children to buy food and other products at the informal vendors and as long as the policyholder's representative has his or her identity document, it is likely that the *spaza* shop will sell the insurance product to this client. While other insurance models, as a minimum, require the policyholder to at least be in a sufficiently healthy state to present him/herself at the point of sale, this distribution model does not require it.

Vendors may not have sufficient brand trust for insurance sales. The lower than expected client take-up through the Wiredloop retail payment network has also been linked to community members' limited trust in spaza shop vendors (Mvulana, 2009). Unlike a retailer like Shoprite, there is no established brand power that the insurance product can link up to.

Incentives may not be sufficiently aligned to encourage sales. The individual selling the insurance product for the vendor may not necessarily be incentivized to do so, as he/she may not be the owner of the spaza shop. Due to the discount sale remuneration arrangement with Wiredloop, the owner of the point-of-sales terminal receives the commission, not necessarily the sales person.

Cell phone-based distribution

Absence of face-to-face intermediation. Cell-phone-based distribution lacks face-to-face interaction with the client; this, combined with the unfamiliar use of technology, may discourage potential clients.

Cell phone distribution costly. Though insurance sales using airtime as payment for policy premiums is an attractive and simple distribution mechanism, this model has proven rather costly. This is due to two factors. Firstly, a high level of consumer education is needed which can often only be pursued through extensive marketing. Secondly, airtime-based premium collection has proved to be very expensive, with a 40% fee charged on each transaction to collect the airtime and convert it to currency.

General

Lack of focus due to poorly defined target market. Cover2go management has shied away from defining a particular target market for their insurance offering. The seemingly greater success of the Shoprite Cover2go product compared to Cover2go's other distribution channels could possibly be attributed to Shoprite's focus on a specific target market, i.e.

typical Shoprite clients. However, it may also be related to Shoprite's strong brand trust, something the other distribution channels do not have.

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