MicroSave
Market-led solutions for financial services

Microinsurance

Optimising Performance and Efficiency Series

MicroSave's

Inspiration:

"A world in which all people have access to high-quality affordable market-led financial services"

Mission:

"Strengthening the capacity of financial service providers to deliver market-led financial solutions"

MicroSave

Market-led solutions for financial services

Presents

Optimising Performance and Efficiency Series

Microinsurance

The Optimising Performance and Efficiency Series (OPE Series) brings together key insights and ideas on specific topics, with the clear objective of providing microfinance practitioners with practical and actionable advice. Based on *MicroSave's* acclaimed Briefing Notes and India Focus Notes series, the Optimising Performance and Efficiency Series provides succinct guidance on a variety of topics from product innovation to delivery system optimisation. Each of the booklets addresses a key topic that can transform banks/ financial institutions for the better. The Series will help improve banks/ financial institutions double bottom line – both the business and its social performance.

Also in this series...

- **Individual Lending**
- **Product Development**
- **Savings**
- **Risk Management**
- **E/M-Banking Volume I-V**
- **Responsible Finance**

Table of Contents

Microinsurance: The way out of risk and vulnerability

Background

Microinsurance is the silent offspring of insurance and microfinance. However, the complexity, technicality and diversity of microinsurance make it a unique sector. Intangibility of financial products is also further enhanced in case of insurance, since the transaction pattern demands upfront pay-in and non-certain pay-out in future period. Hence, it is necessary to incorporate both technical and client centric inputs while strategising on microinsurance.

For several years now, *MicroSave* has been closely involved with several microinsurance e initiatives in Asia and Africa. *MicroSave* provides support conducting industry assessment, market research, process design and optimisation including pilot-testing, brand/marketing and insurance literacy campaign design in addition to providing training in the field of microinsurance. *MicroSave* has worked on microinsurance services with a mosaic of organisations including insurance companies, insurance cooperatives, banks, investors and microfinance institutions. For more details about *MicroSave*'s work in this area, please see our microinsurance brochure on our website www.*MicroSave*.net.

The present volume of OPE series compiles the learning of *MicroSave* on strategising for microinsurance and optimising product and delivery channel for delivery of microinsurance.

The selected articles on microinsurance are as follows:

1. ***Choice Pyramid: A Microinsurance Strategy Tool***
   Premasis Mukherjee

   Any organisation faces three main dilemmas while strategising for microinsurance. These are:
   - What product type is best suitable for the market?
   - What does the client want in the product? And
   - How should the product be delivered?

   Though these questions are common to any industry, in microinsurance, these questions are particularly strategic in nature since each one demands a decision that is often tied with substantial investment and/or commitment. The Choice Pyramid offers a framework to analyse and resolve these issues. The Choice Pyramid framework takes us through three-stages – Environmental, Market and Organisational Suitability for microinsurance implementation. Each of these three stages leads to a decision point for financial institutions to address one of the key questions discussed.

2. ***Regulatory Feasibility in Microinsurance***
   Premasis Mukherjee

   Regulation is instrumental in development of microinsurance in any country. Microinsurance regulations have been, and are being, developed in several developing countries, with variable success rates. The microinsurance sector is trying to understand what aspects of regulation create an effective and efficient microinsurance market in any country. This note discusses a framework for comprehensive analysis of microinsurance regulation through assessment of three broad aspects: regulatory capacity, clarity in regulation and promotion of microinsurance.

3. ***Microinsurance in Uganda-Tectonic Shift in the Near Future***
Premasis Mukherjee and Samson P. Odele

This note analyses the possible impact of these regulatory and political changes on the microinsurance sector, and predicts the state of the sector in Uganda in near future. Our predictions are based on the assumption that the IRA will be a strong regulator and national policies will be sincerely and effectively implemented. Though it is still a speculative to pre-empt the market, we believe that conventional insurers, as well as microfinance players will soon be able to realise the strategic potential of microinsurance in their portfolio.

4. ***Client Suitability: Role of Market Research in Microinsurance***
Premasis Mukherjee

Insurance is an intangible product. Any product designed without market research (to understand the perceptions and preferences of the target market) is likely to be less attractive, and to experience reduced traction with clients. An effective market research on microinsurance, does not only help design a client oriented product, but also helps in the design of positioning and marketing strategy, awareness and insurance literacy campaigns and provide crucial hint for pricing of the product. In this note, *MicroSave* discusses the role market research plays in the design of product and delivery channel strategy for microinsurance.

5. ***Agent Banking and Insurance: Is There A Value Alignment?***
Jitendra Balani and Premasis Mukherjee

Agent banking is emerging as the preferred conduit to promote financial inclusion globally. However, an agent banking network can sustain only if there is a value alignment for all the stakeholders in the digital eco-system. In this note, we discuss the potential value for stakeholders in a situation where insurance products are offered through agent banking channel. We also highlight the challenges that might arise when implementing insurance products on agent banking channels. Despite the stakeholder value alignment, it is evident that insurance inclusion through agents requires careful planning of product, channel and marketing at both insurer as well as the implementing bank level.

6. ***Insurance Through Bank Agents: How Can It Be Done?***
Premasis Mukherjee and Jitendra Balani

Insurance sourcing through bank agents is becoming increasingly popular. Though the reason for such enthusiasm can be understood, the challenges cannot be overlooked either. In this note, we detail the product and channel planning challenges and strategies to address them. Appreciating the complexities of the bank agent channel is pivotal to the success of the channel. Though this note suggests one perspective on how to adopt the channel for insurance inclusion, it is by no means the only one. The future will show us how different approaches to bank agency-insurance inclusion perform. The model of channel diffusion outlined in this note may unearth the challenges of managing inter-channel conflict. Implementing organisations' management of these risks will impact the viability of this model in long run.

Choice Pyramid: A Microinsurance Strategy Tool

Premasis Mukherjee

Strategic Dilemma in Microinsurance

Any organisation faces three main dilemmas while strategising for microinsurance. These are:

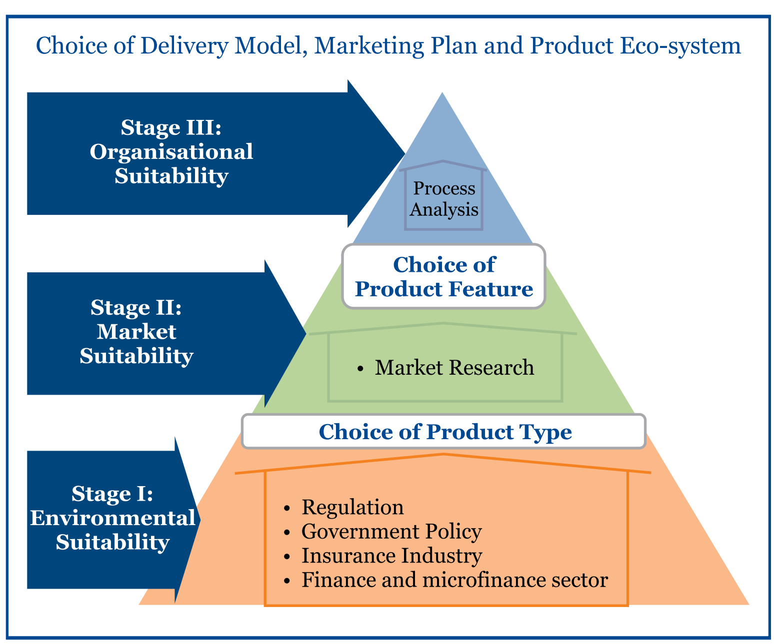
- What product type is best suitable for the market?
- What does the client want in the product? and
- How should the product be delivered?

These questions are not unique to the microinsurance sector. Feasibility of business models in any industry depends on how convincingly these questions are answered. However, in microinsurance, these questions are particularly strategic in nature since each one demands a decision that is often tied with substantial investment and/or commitment.

The microinsurance sector is characterised by diverse product choices and delivery options. There are multiple choices of products ranging from standalone life, health, agriculture and property insurance to endowment and composite insurance. There are a variety of options in delivery channels too, from partner-agent to full service models. The kind of institution underwriting microinsurance also varies, from government to NGOs, MFIs and cooperatives to conventional insurance companies and banks. However, most of these choices are mutually exclusive to each other. Once an organisation has decided on a product type or delivery model, the cost of revoking or modifying the strategy becomes very high. Most of these choices require substantial investment in managing supplementary infrastructure to make microinsurance work for the clients. For example, the success of a health insurance programme depends on efficient supervision and management of a health delivery infrastructure, while success of anindex linked agriculture insurance depends highly on the availability and accuracy of meteorological data.Besides, many insurance products are long term in nature. Hence, the clients, once they have subscribed, must be served for a sustained period, even if the product or channel is not profitable.

The Choice Pyramid

The Choice Pyramid offers a framework to analyse and resolve these issues. The Choice Pyramid framework takes us through three-stages – Environmental, Market and Organisational Suitability for microinsurance implementation. Each of these three stages leads to a decision point for financial institutions to address one of the key questions discussed above.



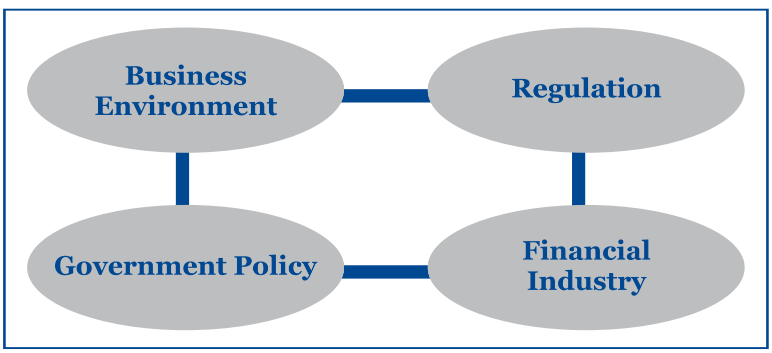
The Environmental Suitability phase informs the most suitable product type to be launched by the institution. To determine this, we conduct a thorough analysis of the regulations, government policies, insurance industry characteristics, and trends in financial services.

The ***Market Suitability*** phase checks the product in terms of client needs and preferences. We conduct a market research exercise to evaluate the product fit. This leads to market segmentation and development of client-centric products.

The ***Organisational Suitability*** phase is to analyse the existing processes of the institution (and its potential distributors) to see if the product can be implemented through the proposed delivery channel. With a clear focus on marketing and competitive advantages targeted by the institution, we can make modifications to these processes.

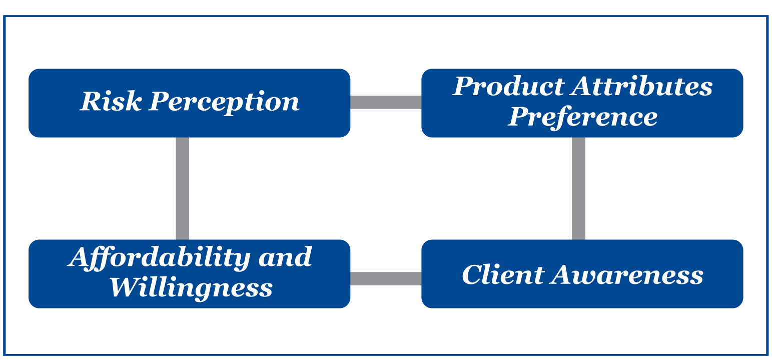
Environmental Suitability

The characteristics of any industry are influenced by the overall business environment in which it resides. Moreover, in most countries, microinsurance developed either as a part of insurance industry initiatives (e.g. Thailand and Kenya), the microfinance industry's innovation (e.g. Bangladesh and Vietnam) or governments' desire to modernise social security schemes (e.g., India). Naturally, the microinsurance sector takes on some of the characteristics of the parent industry in all these countries. To strategise therefore, it is essential to understand whether a product type is supported by the environment.



Environmental suitability can be gauged through four sub-analyses of: 1. overall business environment; 2. regulatory feasibility; 3. trends in government's policy; 4. financial industry characteristics and trends.

A product type, according to the framework, is suitable for a potential player only if: it is supported by an innovative business environment; is feasible under the existing regulations governing insurance, microfinance and/or microinsurance (if any); does not conflict with any government or social security policy; and if it fits well into the overall trajectory of the financial industry of the country.



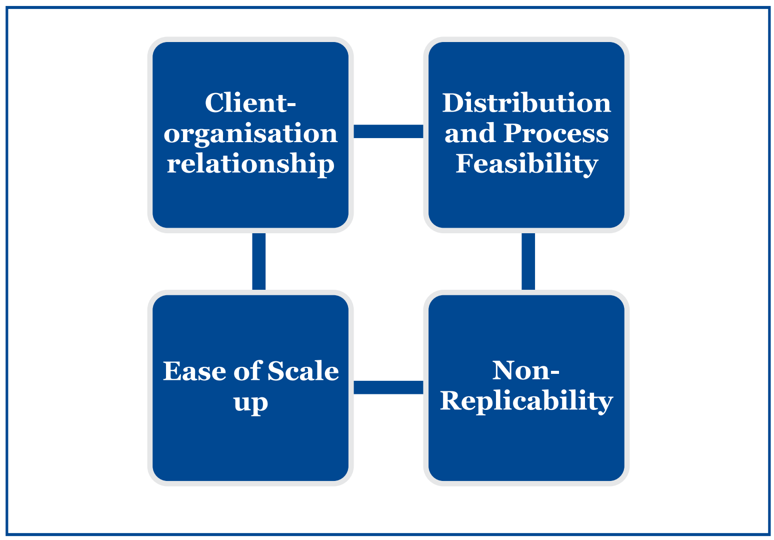
Market Suitability

Once the type of product is decided, detailed product features must be derived through thorough market research with potential clients. There are four essential pillars of such a market suitability assessment.

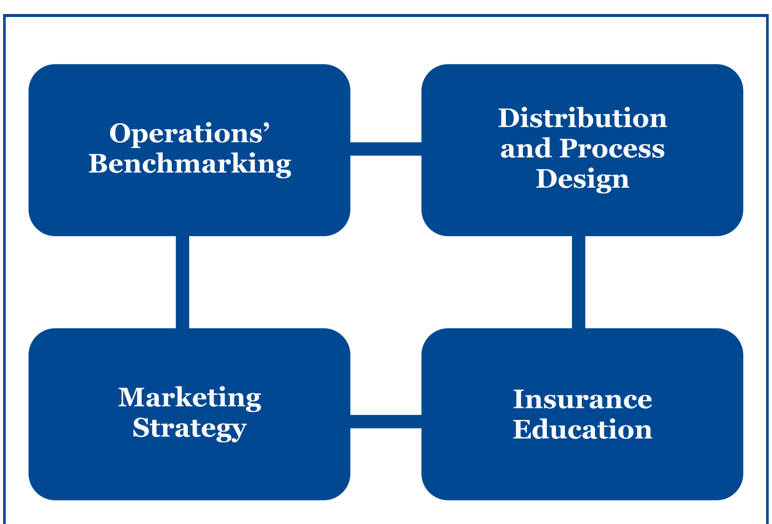
To design specific benefits for the product, we need to understand clients' priorities for specific risk events under broad risk types, (e.g. health or agriculture or life). The second most important aspect of demand is client preferences for product attributes. Product attributes need to be further segmented into the three components of a basic market positioning triangle: price, quality of service and product quality. This helps to design the positioning strategy for the product. The third aspect of demand is the target clients' level of awareness. Since insurance globally faces latent demand, clarity on the knowledge, perception and attitude of the clients is essential, not only for design of the product, but also for effective marketing as well. The final part of client analysis deals with the willingness to pay for,and affordability of,insurance amongst the target clientele. This can be deduced only through a careful analysis of the existing risk mitigation strategies of the target clientele and their current financial behaviour and transaction patterns. This willingness to pay and affordability analysis provides important information to the actuaries for pricing the product.

Organisational Suitability

Microinsurance products are distributed through different institutional arrangements. Hence, clarity on the organisational form and distribution is important to create a product eco-system. Organisational suitability is a function of four institutional characteristics, as follows.



Once the feasibility of the organisation's processes has been assessed, the next step is to modify the existing processes for effective distribution of the proposed microinsurance product. Since microinsurance is often a secondary activity of the distributor, it is essential to deliver microinsurance services with minimum friction for the organisation. To reduce change, therefore, it is always preferable to modify existing processes of the institution, rather than introducing entirely new ones. Important parts of a complete process implementation plan comprise the following aspects.



To yield competitive advantage on service quality, benchmarking of transactions (similar to insurance transactions) with direct and indirect competitors must be conducted. This informs the design of distribution strategy and operations processes, as well as the design of sales and service incentives and plans for pilot-testing and rollout. Insurance education campaigns are also integral to the delivery of microinsurance, and will only yield positive client behaviour if packaged as a marketing tool linked closely to the product being delivered.

Conclusion

The Choice Pyramid provides three major stages of developing microinsurance product. The stages in the Pyramid include the analyses and factors that financial institutions need to bear in mind before they introduce the product in the market. In the next series of similar notes, we will discuss in detail each of the three stages, detailing the objective assessment criteria as well as possible pitfalls in implementing them.

Regulatory Feasibility in Microinsurance

Premasis Mukherjee

Regulation is instrumental in development of microinsurance in any country. While microinsurance in countries like India and the Philippines has developed as a consequence of regulatory interventions, the absence of sector specific regulations has restricted development of microinsurance market in some high potential countries such as Indonesia and Mongolia. Many other developing economies such as Bangladesh, Nepal, Pakistan and Uganda, having realised the need, are now developing their first ever microinsurance regulation. However, if these regulations are not focussed on effective market development, they will fail to stimulate growth of their respective microinsurance sectors, as witnessed in the case of Cambodia and Vietnam.[1] So what aspects of a microinsurance regulation create an efficient and effective microinsurance market? In this note we discuss a framework to analyse the feasibility and effectiveness of microinsurance regulation.

There are broadly three pillars of such comprehensive regulatory feasibility assessment.

1. Readiness of Regulator

For an effective microinsurance market, it is a pre-requisite to have an efficient regulatory structure that is ready for such developments. Such readiness is a function of the following aspects:

- ***Regulatory capacity:*** For effective implementation of microinsurance regulation it is necessary to have a regulator capable of managing multiple and diverse types of entities. Though it is difficult to assess such capacity, the number of offices and staff of the regulator as well as the number of organisations currently regulated can indicate the bandwidth of the proposed microinsurance regulator. An independent insurance regulator which effectively supervises more than 100 insurers (e.g. the Philippines), for example, may have better regulatory capacity than a small division of insurance regulationin one of the ministries of the country, regulating less than 10 insurers (e.g. Cambodia).

- ***Regulatory arbitrage:*** In some countries, different functions of insurance/ microinsurance (e.g. investment, risk underwriting and distribution) are regulated by different regulatory authorities. For example, in Bangladesh, two separate entities, the Microcredit Regulatory Authority (MRA) and the Insurance Development and Regulatory Authority (IDRA) claim microinsurance to be under their respective regulatory control, potentially causing regulatory conflict. Similarly in the Indian insurance industry where, in 2010, the conflict between the Securities Exchange Board of India (SEBI) and the Insurance Regulatory and Development Authority (IRDA) led to deceleration in the industry. The existence of one regulator for, and/or close coordination amongst regulators of, different functions of microinsurance enables the sector to avoid such controversies and possible regulatory confusion.

- ***Implementation and market conduct:*** For a mature and effective microinsurance sector, it is essential that regulations and supervisory guidelines are actually implemented in a manner that insurance and financial market fundamentals (e.g. client protection, process sanctity, fund management etc.), are followed by the players transparently and in accordance with the best practices in the world. While the very existence of guidelines for market conduct, underwriting, investment and solvencyare indications of regulatory efficiency, the implementation level is confirmed by audits, grievance redressal mechanisms

[1] In both of these countries, microinsurance market remained underdeveloped in spite of specific microinsurance regulation

and the trend of regulatory revisions in the country, along with the regulator's history of punitive action against non-compliant entities.

- ***Flexibility:*** Though regulators in nascent insurance markets often prescribe strict product specifications for microinsurance (e.g. Nepal), such initiatives are limited in their effectiveness. An innovative, client friendly and diverse microinsurance sector can emerge only if the regulator promotes a flexible product and distribution regime.The openness of regulator towards composite products (e.g. Cambodia); fast product licensing (e.g. the Philippines); semi-formal intermediaries (e.g. Pakistan); the bancassurance model (e.g. India) are some indicators of such flexibility.

2. Clarity in Regulation

Clear definition of products to be offered, practices to be carried out under microinsurance and its distinction in terms of different types of institutions, solvency, investment and market conduct are seeds for the development of a confident microinsurance market. This includes clarity on the following areas:

- ***Social security and microinsurance policy:*** Clarity on intention, quantum and areas of social security indicate whether such social security/insurance schemes will affect the growth of microinsurance sector positively or negatively. While fully subsidised universal health schemes wipe out the possibility of market based health microinsurance development (e.g. RSBY of India), some governments want private microinsurance as part of their social security measures (e.g. CBHIs of Laos, VHI of Vietnam).

- ***Institutions for microinsurance:*** Globally, diverse semi-formal institutions, such as mutuals, health providers, and church groups, underwrite microinsurance products, either with, or despite lack of, regulatory legitimacy. In the absence of clear guidelines on institutions, many such unregulated entities can mushroom.These are often ultimately orphaned or unable to scale-up due to fear of being banned by the regulator in future. The risk of violation of client protection principles is also high if such unregulated entities continue to provide microinsurance in the absence of regulatory supervision. While some countries are pro-active in inviting such microinsurance specific institutions (e.g. Cambodia, the Philippines), most regulators prefer only commercial insurers to underwrite microinsurance, while adopting a "benign neglect" towards the semi-formal microinsurers (e.g. India).

- ***Product and pricing:*** Since microinsurance is new for many insurers, they feel more confidentto enter the sector when the regulator clarifies the scope and boundaries around product features (e.g. India) and pricing range (e.g. the Philippines). In addition, pricing guidelines help overcome the practice of pricing without actuarial analysis, which is worryingly common in microinsurance. Apart from ensuring efficient and client friendly products, such practices help to avoid unfair competition through price undercutting (e.g. Uganda) and mis-selling around product features and benefits.

- ***Intermediary and distribution:*** Since the maturity of any insurance market depends highly on the quality of solicitation (by individual and corporate agents) and service provided (by loss assessors, third party administrators etc.), clear guidelines necessary on roles and responsibilities of all entities allowed as either distributor or intermediary are essential. Moreover, the regulator's approach towards new and alternative distribution (e.g. banking agents in India and throughout much of Africa) affect the potential for growth of the sector in the country.

3. Promotion of Microinsurance

Microinsurance, is largely alien to commercial insurers, and thus develops only if the regulator and government actively promote microinsurance through regulatory and other measures. The regulator's intention can be assessed from the following:

- ***Ensure ready market of microinsurance:*** Regulators and governments often encourage insurers to startmicroinsurance through market scoping studies (e.g. Pakistan) and/or by providing a captive client base to them by allowing government infrastructure to be used for microinsurance. In many countries microinsurance has, in fact, initiated only after the government has created a demonstration effect through pilot programmes on microinsurance (e.g. China, Mongolia); or provided the necessary infrastructure for microinsurance to grow (e.g. a specific reinsurance fund in Nepal).

- ***Incentivise microinsurance:*** Commercial insurers, if incentivised to enter microinsurance, bring efficiency to the sector through their expertise in the insurance business. On the other hand, it is also important to bring semi-formal microinsurers under regulation in order to optimise client protection, pricing and market conduct. Regulators often incentivise the entities through collateral benefits (e.g. China), mandatory participation (e.g. India, Bangladesh), or reduced capital requirement (e.g. the Philippines), to promote the growth of the microinsurance sector.

- ***Build awareness:*** Microinsurance in any country is positively reinforced if the regulator and/or the government actively promote microinsurance through publications, press statements or conferences. Creation of an exclusive microinsurance website (e.g. the Philippines), microinsurance workshops organised by the regulator (e.g. Armenia, Indonesia, Pacific islands), inclusion of microinsurance in the national finance plan (e.g. Laos, Cambodia, Vietnam) are some examples of promotional measures taken by regulators.

- ***Political interference and subsidy:*** While inconsistent policies restrict the growth of market-based microinsurance, a positive political intent can promote microinsurance in a country despite absence of clear regulation or existent infrastructure. Similarly, subsidised government schemes (especially if they cover full premium cost) are a deterrent for market based microinsurance (e.g. Azerbaijan) unless they are used efficiently in combination with clients' premium (e.g. 50% premium subsidy in Nepal).

Conclusion

In most countries, microinsurance develops as a sub-segment of social security programmes, conventional insurance or microfinance activities. Microinsurance development is, therefore, affected not only by microinsurance specific regulations, but by regulations and trends impacting these sectors of the country as well. Regulatory assessments, therefore, are able to capture true potential for the sector only if they include all the regulatory aspects affecting the overall business environment of microinsurance in the country.

Microinsurance in Uganda: Tectonic Shift In The Near Future?

Premasis Mukherjee and Samson P. Odele

The microinsurance sector's fate is largely decided by regulations, governments' developmental plans and poverty related policies. In the case of Uganda, these determinants have recently undergone change. The Insurance (Amendment) Act, 2011 of Uganda, has promoted an entirely new regulatory framework under the Insurance Regulatory Authority (IRA). In addition, the government's National Development Plan (2010/11-2014/15) (NDP) also envisages new approaches for economic and social growth with a strong focus on poverty-reduction. These two developments are likely to influence the microinsurance sector.

This note analyses the possible impact of these regulatory and political changes on the microinsurance sector, and predicts the state of the sector in Uganda in near future. Some of the salient aspects of the new regulatory regime are outlined below.

Insurance Companies Will Be Highly Regulated

The regulation puts an end to composite insurance licenses. From now on, only specified life and non-life insurance companies with minimum paid up capital of UGX3-4 billion (US$1.2-1.5 million)[1] will be permitted. The regulator, concerned about undercutting of prices[2] and non-compliance, has required that all the products, prices and documents be approved by the regulator. Licenses for companies and intermediaries must be renewed every year.

Channels To Be Regulated Too

The Act also regulates all agents, and other insurance intermediaries.[3] It requires exclusivity of agents, so that an entity or a person can only be an agent for one life and one non-life insurance company. All agents must pass the Certificate of Proficiency (COP) in Insurance examination conducted by the Insurance Institute of Uganda (IIU).

Bancassurance Channel Has Opened Up

To date, banks and financial institutions,[4] could sell only credit-linked insurance to their existing customers. The new regulation opens the option of bancassurance, where these institutions can deliver a variety of insurance companies' products. Moreover, the exclusivity clause does not apply to the bancassurance channel. Thus banks and FIs can become intermediaries of more than one life and/or non-life insurance companies.

Institutional Regulation For Microinsurance

The IRA has decided to formulate a separate microinsurance regulation with specific provisions for health and bancassurance categorised under non-life insurance. However, the regulation is silent on how a microinsurance policy covering life risks will be categorised. The regulator also seems to favour a separate institutional category for microinsurance. It has proposed separate minimum capital requirements for microinsurance providers. It is expected that, following advice from global experts, the minimum paid up capital for microinsurance will be less than UGX200 million (US$80,000).

In addition to the NDP, the Microfinance Outreach Plan (MOP), Health Sector Strategic Planning III (HSSP III), National Health Policy II (NHP II), Uganda National Minimum Health Package (UNMHP) and National Health Insurance Scheme (NHIS) are some of the

[1] UGX3bn for life and UGX4bn for non-life business; Uganda Insurers' Association; October 2011
[2] Which may lead to poor claim ratio and ultimately compromise client interest
[3] Brokers, claim settling agents, loss assessors, surveyors and risk managers
[4] Regulated by Financial Institutions' Act 2004 and MDI Act 2003

government policies that might impact microinsurance business in the country. Some of the expected trends are discussed below.

Improved Access to Financial Services

Uganda is ranked 126th among 139 countries assessed for financial inclusion.[5] It has only 1.94 bank branches per 100,000 adults and 154 accounts per1,000 adults. NDP targets to have at least one bank branch in every district and an MFI in every sub-district by 2014. The government incentivises MFIs (SACCOs and NGO-MFIs) serving rural areas through free technical assistance and tax relief. With a planned investment of UGX31.4 billion (US$12.6 million), the national fibre optic cable network is also expected to link the country and improve the payment and core banking systems. Moreover, the plan proposes to increase competition in the financial industry by licensing more financial institutions under a strict but transparent regulatory system. All of these initiatives are expected to improve the status of financial inclusion in Uganda.

Improved Rural Economy

With an expected investment of UGX71.4 billion (US$28.6 million), the irrigation systems of Uganda are to be modernised. The NDP also promotes modernisation of the production and marketing of agricultural produce. These initiatives should result in higher disposable income of farming communities in rural areas (73% of the population). Hence, the affordability for financial services is also expected to improve.

Improved Health Status

The major focus of HSSPIII and NHPII is to improve health awareness and primary health care. Through these programmes, the government is emphasising access to preventive health care along with sanitation, child health and health literacy campaigns. The experts do, however, suggest that the fiscal health expenditure is insufficient to take care of all the health related issues of the country. Hence, private-public partnerships will be necessary to effect significant, sustainable change in health indicators.

Limited Health Insurance Coverage

The Ministry of Health is in the process of designing a universal National Health Insurance Scheme (NHIS). The plan will cover only the public and private sector employees for the first seven years, followed by the poor and informal sector players thereafter. The timeframe for universal coverage is fifteen years. However, unless the revenue and premium model undergoes a radical change, there is limited potential for such a scheme to attract either health service providers or the insurers.

The microinsurance regulation might take one more year to be formulated. Though challenging to predict, some of the trends that the new regulatory regime might dictate are discussed below.

[5] Measuring Access to Financial Services, CGAP, 2009

A New Microinsurance Regime Will Be Established

We believe that the microinsurance regulation will comprise a mix of functional and institutional regulations.[6] The type of risks to be underwritten under microinsurance will be specified, and new legal forms (e.g. funeral societies, MDIs) will be allowed to underwrite only microinsurance policies. However, in the absence of any global microinsurance player, and with the limited expertise of conventional insurers in microinsurance, local players with experience of informal risk pooling, are expected to take the microinsurance licenses. Given the interest of Ugandan policymakers in cooperatives, it is expected that cooperatives will also be allowed to underwrite microinsurance.

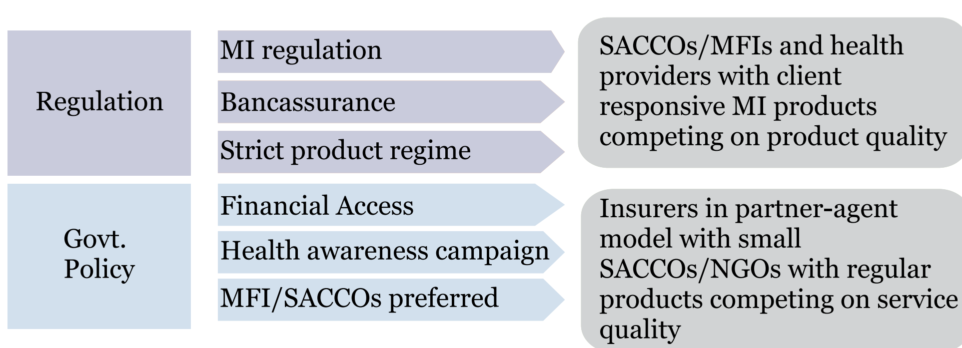
New Microinsurance Players Will Enter The Market

Due to the relaxed capital norms in the microinsurance and health insurance markets, an increase in new players in this space is to be expected. Apart from the localised players, health insurance might be spearheaded by health service providers. The takeover of erstwhile micro-insurer Microcare, by the International Medical Group (which has a chain of health clinics across the country) is an indication that some health service provider chains might enter the health insurance and microinsurance space.

Distribution Will Determine Competition

With the advent of the bancassurance regulation, banks, MDIs and MFIs will be able to distribute more than just credit-life insurance products. The new microinsurance regulation is also expected to allow new distribution channels specifically for microinsurance such as cooperatives, SACCOs and NGOs. It is important to note that the regulator is going to establish a strict product approval regime. It is therefore safe to assume that insurers will focus on optimising distribution rather than on developing innovative products to be competitive in the market. It is also possible that the conventional insurers will try to "push" their existing credit-life microinsurance products, through their new distribution channels.

Development of Microinsurance (MI) Market in Uganda



Product Quality And Service Will Be The Two Edges

Local players, SACCOs, MFIs and health service providers lack the distribution advantage. However, they have an edge in understanding the local context. Thus, their products should be more responsive to the needs of the local clientele. Conventional insurers, entering the

[6] When microinsurance is considered as a sub-sector of conventional insurance, it is "functional regulation"; whereas regulation promoting separate institutional treatment of microinsurance is called "institutional regulation" - (IAIS).

microinsurance field, therefore will have to compete with these local players by delivering customised solutions. One potential result might be that local players compete on product quality, and conventional players, banking on their distribution advantage, compete on quality of service.

Awareness Of Microinsurance Will Increase

Though NHIS is initially meant for public and private sector employees, it certainly will enhance awareness of people in Uganda about health insurance. The market is set for a renewed pitch and associated publicity on health insurance by the new entities entering the microinsurance market. Promotional campaigns by Uganda Insurer's Association will also enhance awareness. Both of these efforts will make the concept of health insurance better known and potentially more popular, and thus will help to stimulate the latent demand for health insurance in Uganda.

Conclusion

Our predictions are based on the assumption that the IRA will be a strong regulator and national policies will be sincerely and effectively implemented. Though it is still a speculative to pre-empt the market, we believe that conventional insurers, as well as microfinance players will soon be able to realise the strategic potential of microinsurance in their portfolio.

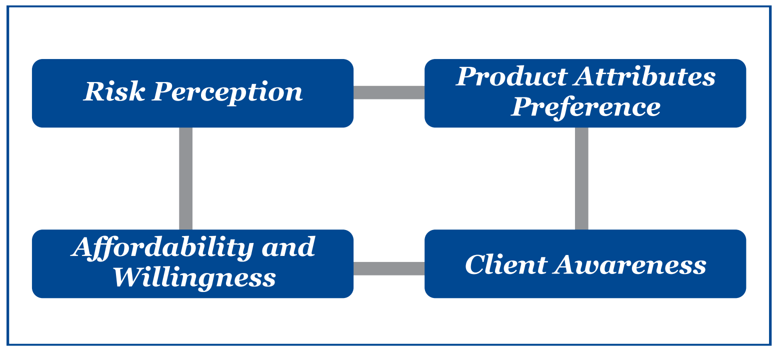
Client Suitability: Role of Market Research in Microinsurance

Premasis Mukherjee

In chapter 'Choice Pyramid: A Microinsurance Strategy Tool', we discussed how environmental suitability analysis can help a potential microinsurer analyse the feasibility of product types. In this note we discuss the role market research plays in the design of product and delivery channel strategy.

Market Suitability Framework

Insurance is an intangible product. Any product designed without market research to understand the perceptions and preferences of the target marketis likely to be less attractive,and to experience reduced traction with clients. There are four essential pillars of market suitability assessment, as shown.

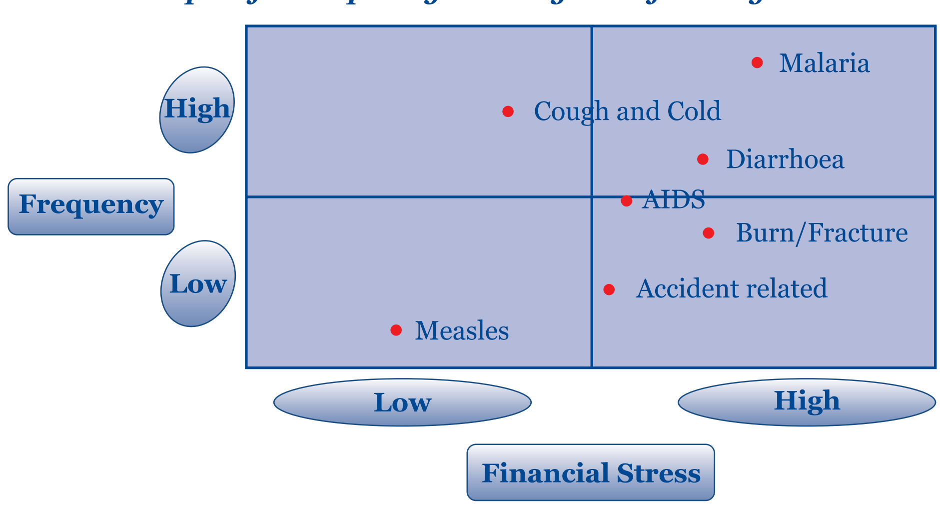


Risk Perception Analysis

In a client responsive microinsurance product, risk coverage, sum assured, product term and claim settlement processes often depend on clients' perception of the specific risk event and the associated costs. For product design, therefore, it is essential to analyse risk events in the life of potential clients. Such risk analysis generally comprises three broad steps.

First, to arrive at specific product features, a broad risk category (health or agriculture or life etc.) must be further segmented into specific risk events. For example, if the chosen product type is health, sub-segments might comprise of primary, secondary or tertiary health care; or drug related costs or in-patient treatment costs. In market research in Uganda, clients even sub-divided health related risks into disease types: regular illness, treatment for accidents and chronic ailments.

Example of a Frequency-Severity table from Uganda



Secondly, from the long list for the risks under a broad category, suitable risk events are chosen to be covered under the product through an analysis of their frequency and severity. As a risk management tool, insurance is typically meant for events that are severe in impact, yet low on frequency. A frequency-severity mapping tool used in *MicroSave*'s market research analyses the positioning of events on these two parameters. In areas of low insurance penetration and awareness, however, it is often necessary to also include events of medium frequency for the coverage, in order to make the product attractive.

Third, it is necessary to understand the cost associated with the chosen risk event, so that sum assured can be designed accordingly. Though the sum assured in microinsurance is often designed with affordability concerns, clients generally lose interest if the product does not indemnify them adequately for the loss incurred. Moreover, microinsurance's target clients often express unique perceptions of indemnity, that are significantly different from conventional methods of deciding on sum assured. In market research in India, for example, clients preferred indemnity of a life insurance equal to total typical annual expenses of a family, to enable the widow to start earning in the meantime.

Preferred Product Attributes

It is difficult for any provider to satisfy client preferences for all possible product attributes. To design a client centred, yet feasible product, it is important to understand the non-negotiable and most preferred priorities amongst all the attributes. Such analysis involves multiple stages.

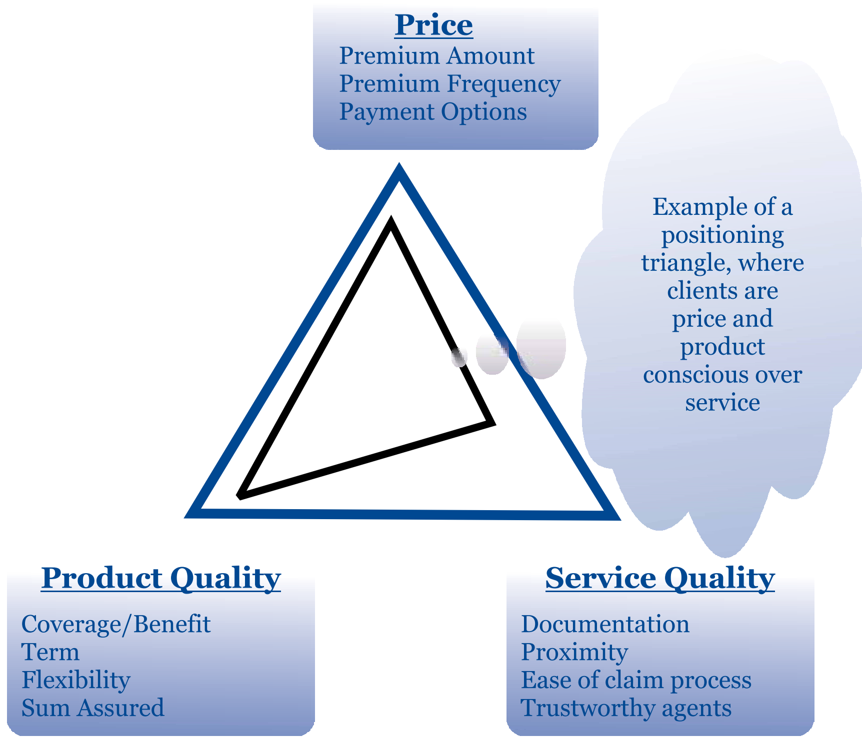
A simple product attribute ranking is often followed by a multiple pair-wise ranking, so that client preferences on specific individual attributes can be captured in the product design. In market research focused on endowment life insurance in India, clients initially placed maturity amount (high maturity amount) over term of the product (short term) and sum assured (lowest on priority). However, a pair-wise analysis led to the design of a product focused on a high sum assured over a short term, with low priority on maturity amount.

In a competitive microinsurance market (e.g. Bangladesh or the Philippines), product attribute analysis can also yield critical information about competitive positioning of the proposed product. A thorough relative preference ranking exercise can reveal the attributes of direct and indirect competitors' products that are valued by target clients. This analysis not only generates important information to crystallise the product idea, but also helps to design marketing and communication campaigns for the product as well.

Clients' preferences on attributes can be segmented into three types:

- Willingness to pay for a high quality product (including flexibility, customisation and suitability to their specific needs);
- Demand for high service quality (including accessibility, trustworthiness of supplier and process efficiency); and
- Desire for price advantage (including choice of payment frequency and competitive pricing).

Experience shows that for any product category, the relative importance of the three benefits is not same. Put into a basic market positioning triangle (see diagram below), this analysis clarifies client preferences and helps to design the positioning strategy for the product.



Insurance Awareness

Assessment of client awareness of insurance informs the design of insurance communication and marketing campaigns. Insurance globally faces a situation of latent demand. Amongst the microinsurance target clientele, lack of awareness of insurance further reduces demand. Insurance awareness drives, therefore, are integral parts of many successful microinsurance programmes across the globe. Awareness drives will only be effective if the actual level of insurance awareness is analysed.

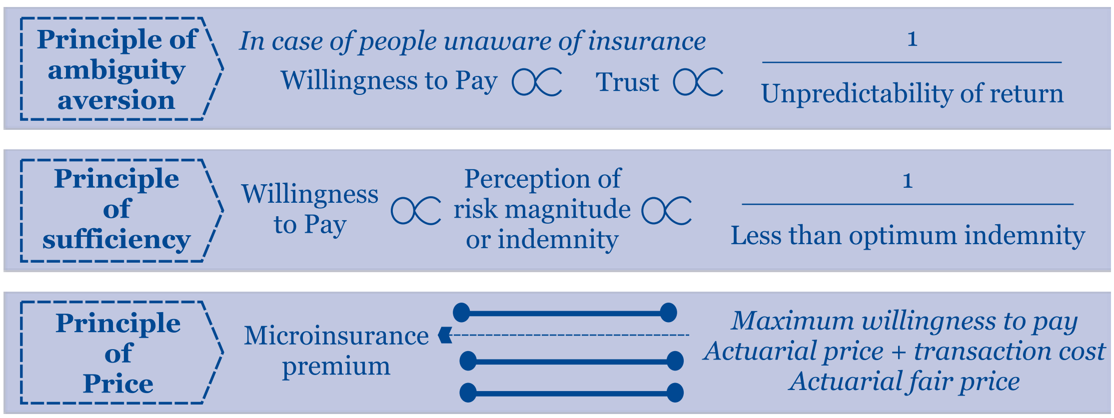
Knowledge Level	• Whether clients know of insurance at all • Whether clients know of the basic processes and types of insurance • Whether clients understand premium, sum assured, term, claim, maturity in insurance • Which kind of institutions do clients identify with insurance
Perception of Insurance	• Whether clients perceive insurance as a risk management tool or savings tool • Whether insurance is perceived as a long term or short term financial instrument • Do clients consider themselves to be target of insurance service
Attitude towards Insurance	• Whether clients have any positive or negative perceptions of the insurance provider • The reasons for such perceptions • Whether clients are willing to buy insurance products - and the reasons for this

This awareness can be classified into 3 sub-segments.

1. *Knowledge*: How much clients know about insurance products and processes;
2. *Perception*: How clients perceive role of insurance in their lives; and
3. *Attitude*: Whether clients are willing to get insured.

Willingness and Affordability

Willingness to pay and affordability are essential informants for pricing products. Pricing and willingness to pay for insurance are governed by three main rules:



Apart from the indemnity perception discussed above, willingness to pay requires assessment of the trust of target clients in the proposed provider, their existing risk mitigating strategies (and their sufficiency), return expectation and overall attitude towards insurance.

Affordability is determined through the analysis of current financial behaviour and transaction patterns of the clientele, cost incurred in current risk mitigation strategies and available disposable income.

Conclusion

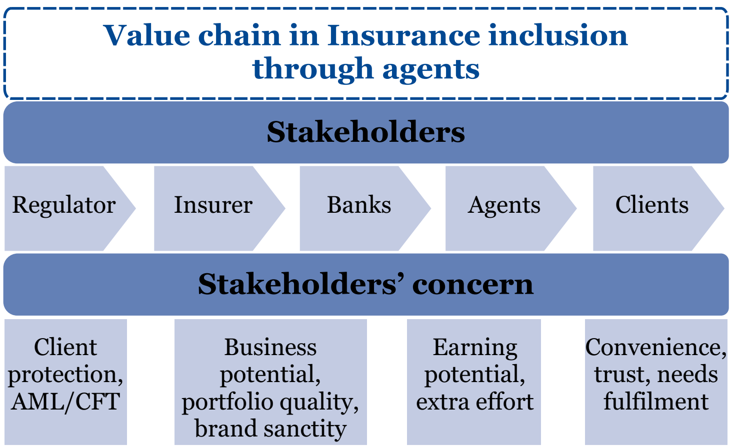
Since microinsurance products are highly technical in nature, any product idea generated by market research must be verified by actuarial and financial analysis. A successful microinsurance product is the one that is both client oriented and technically sound.

Agent Banking and Insurance: Is There A Value Alignment?

Jitendra Balani and Premasis Mukherjee

Introduction

Agent banking,[1] is emerging as the preferred conduit to promote financial inclusion globally. However, an agent banking network can sustain only if there is a value alignment for all the stakeholders in the digital eco-system. The banking correspondent model in India has demonstrated the need for a shift from the single product regime to create such value for banks, agents and clients. Since insurance and pension products cover a large span of clients' life-cycle and needs, the prospect of insurance inclusion through agent banking is being widely recognised by regulators and practitioners alike. Pilot programmes testing insurance servicing through agents are also increasingly becoming common and visible.



In this note, we discuss the potential value for stakeholders in a situation where insurance products are offered through agent banking channel. We also highlight the challenges that might arise when implementing insurance products on agent banking channels.

Regulators' confidence in bank-led channels for financial inclusion is high

Agency banking is largely bank-led in most countries. The principal bank is responsible for AML/KYC[2] compliance; consumer protection; risk management; and liquidity management at the agents. Therefore, banks' agents are more trusted by regulatory and political authorities than the more loosely regulated microfinance entities or individual insurance agents. Moreover, the probability of regulatory arbitrage is also lower in agent banking since banking regulation is stronger than insurance regulation in most countries. Hence, regulators find it preferable to promote insurance through agent banking channels.

For insurance companies, banking agent means inexpensive and voluminous point of sales

For insurance companies, business economics depends on the highest possible number of sales outlets acquired and managed at the least possible cost. Banking agents, therefore, are the best alternative channel available for mass market insurance products. Since the agents are acquired and managed by the banks, the insurer does not incur high on-boarding or management cost beyond the variable costs which depend on the business sourced.

Moreover, in this channel, the insurer gets access to the existing clientele of the principal (i.e. the bank), a reason enough for insurers to prefer agent banking as a channel.

For banks, this means extended reach and cross-selling to the base of the pyramid segment

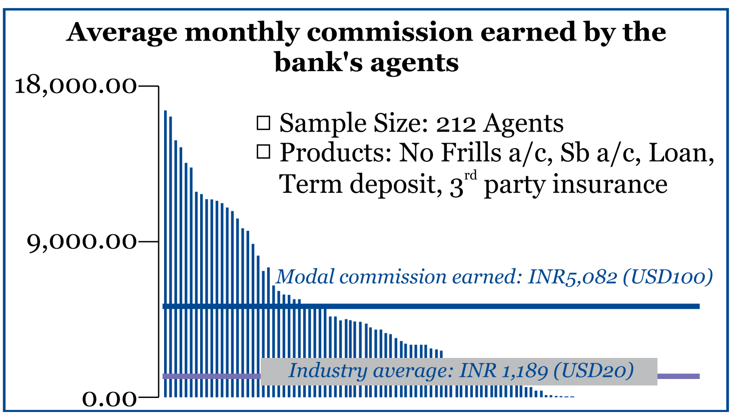
Banks consider bancassurance to be a prospective business due to the opportunities for cross-

[1] Offering of financial services through bank agents often using technology such as point of sale devices and mobile phones
[2] Anti Money Laundering/Know Your Customer

selling; competitive advantage; increased stickiness of clients; enhanced staff productivity; and fee income potential. However, bank employees are costly resources, and hence banks can only afford to sell high premium products through their bank branches. Though many banks have garnered a substantial pool of low income clientele, deputing branch staff to cross-sell insurance to these clients does not make any economic sense for the banks. A low-cost mass-market channel like agent banking opens prospects for extending the reach of insurance for banks.

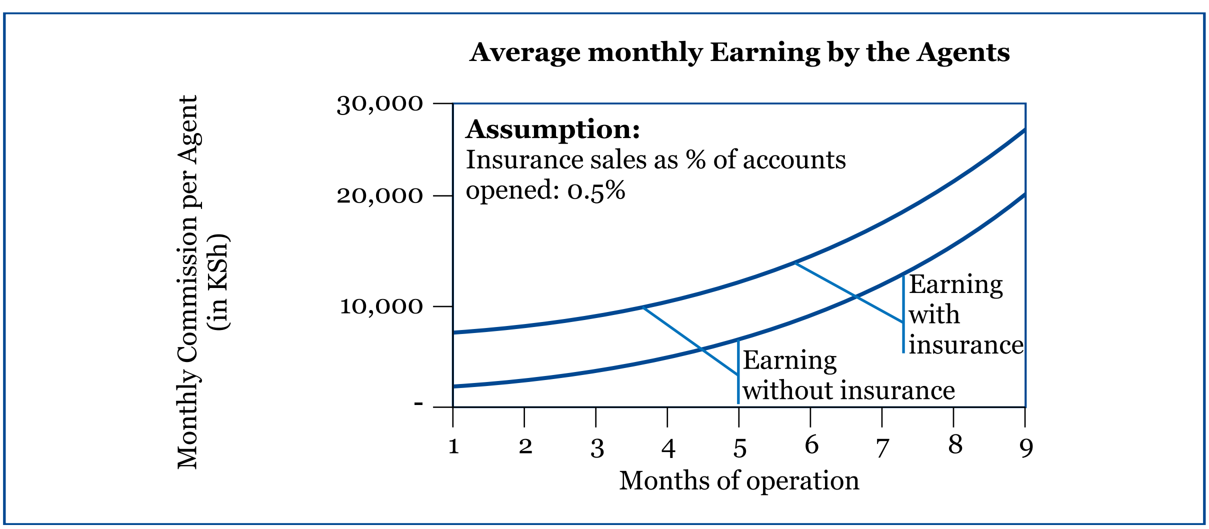
Insurance sales reinforces business case for the bank agent

MicroSave's agent assessments of over 20 agent networks in India have identified a strong need for an improved business case for the bank agents.[3] Basic account opening ceases to make any significant impact on agent economics beyond a year of operation. Remittance and account transactions need time to pick-up, and in between, the agent needs to sustain his business. This can best be achieved by offering a range of products.[4]



In a recent study with a large public sector bank of India, we saw that multiple products do enhance agent's income substantially (see graph).

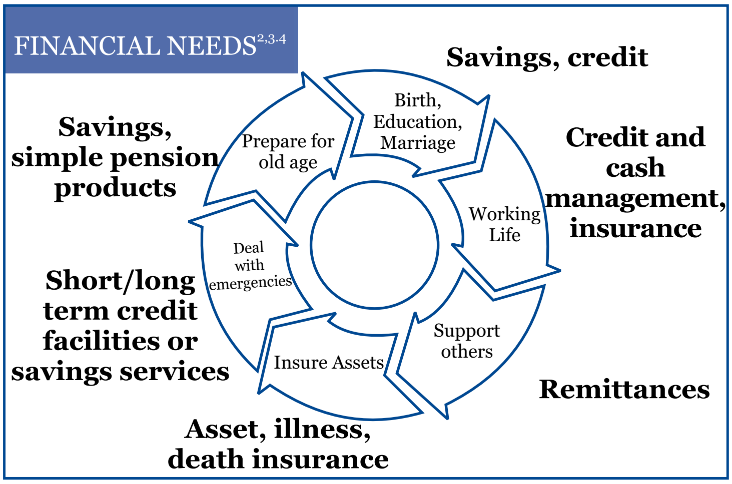
In an African Bank, it is projected that insurance sales and servicing of insurance products (premium collection and benefit redemption) can enhance the earning potential of agents by an average 37%.



For clients, agent should be a one-stop financial solution

Low-income clients need a range of financial products in their life-cycle. Insurance and

[3] See *MicroSave* Policy Brief 2: The State of Business Correspondence - Agent Networks in India
[4] See *MicroSave* India Focus Note 65 "Successful Banking Correspondents Need a Compelling Product Mix"



pension products help them cope with multiple shocks and old age security, which are often perceived as important needs. Demand and willingness to pay studies have also proven substantial need for insurance products in the low income segment and the clients' willingness to pay for the premium. Many clients perceive endowment life insurance as an attractive instrument for long-term savings. Moreover, there are certain insurance policies which are mandated by the government (e.g. motor insurance) and only require simple documentation. Bank agents can be a preferred channel for clients to access such insurance.

Though some value alignments are evident, there are also several concerns about insurance inclusion through bank agents.

Quality of business would be a concern for insurers

Insurance is a specialised financial product and requires expert solicitation and sales. Most countries also mandate a minimum qualification for insurance sales professionals. Bank agents are mostly mom and pop store owners who lack both qualifications and insurance expertise. This can hamper both the quality of business, as well as the potential sales an agent could achieve. Moreover, as a distant client interface (unlike tied agents of insurers), the bank agent channel would be highly susceptible to mis-selling and adverse selection. All these factors could affect both the brand sanctity and the business quality of the insurer. Hence, any insurer will be cautious in allowing its insurance products through this channel.

For bank, the challenge is in managing portfolio

Unlike European banks, where multiple bancassurance channels exist, insurance is mostly pushed through the branch staff channel in developing country banks offering agent banking. Managing the insurance business through the commission-based agent channel would require the banks to re-work their supervision, audit, performance management and incentive design in their bancassurance divisions. Managing third party products would also require the banks to assess the potential for cannibalisation (of other products by insurance or vice versa); brand exclusivity issues; and the cost benefit for each product pushed to the agent channel.

For agents, cost (benefit) must justify the effort

Insurance selling is more effort- and time-intensive for an agent as compared to account opening or mere cash-in/out transactions. The willingness of bank agents to devote time to the insurance business will be a function of the incentive structure for the insurance activities. Unless the policy acquisition is front-loaded with high commissions, agents are unlikely put effort into selling insurance through their outlets. An alternative approach could be to use agents only to sell mandatory insurance (e.g. motor insurance), which has a ready demand and requires little solicitation and underwriting.

Intangibility of agent technology might put clients off
Mobile or card based technologies have become common in most agent banking implementations. One issue with these platforms is their intangibility. Insurance is anyway an intangible product (where the value or benefit for the customer is virtual and future-oriented). This intangibility is further magnified in mobile/card based channels. This factor might dissuade customers from transacting through the agents. Moreover, the low-income clientele often prefer to diversify their financial portfolio across several different providers, because they struggle to trust any one. Hence, the extent of cross-selling potential might be less than expected in the low income category, especially through agents.

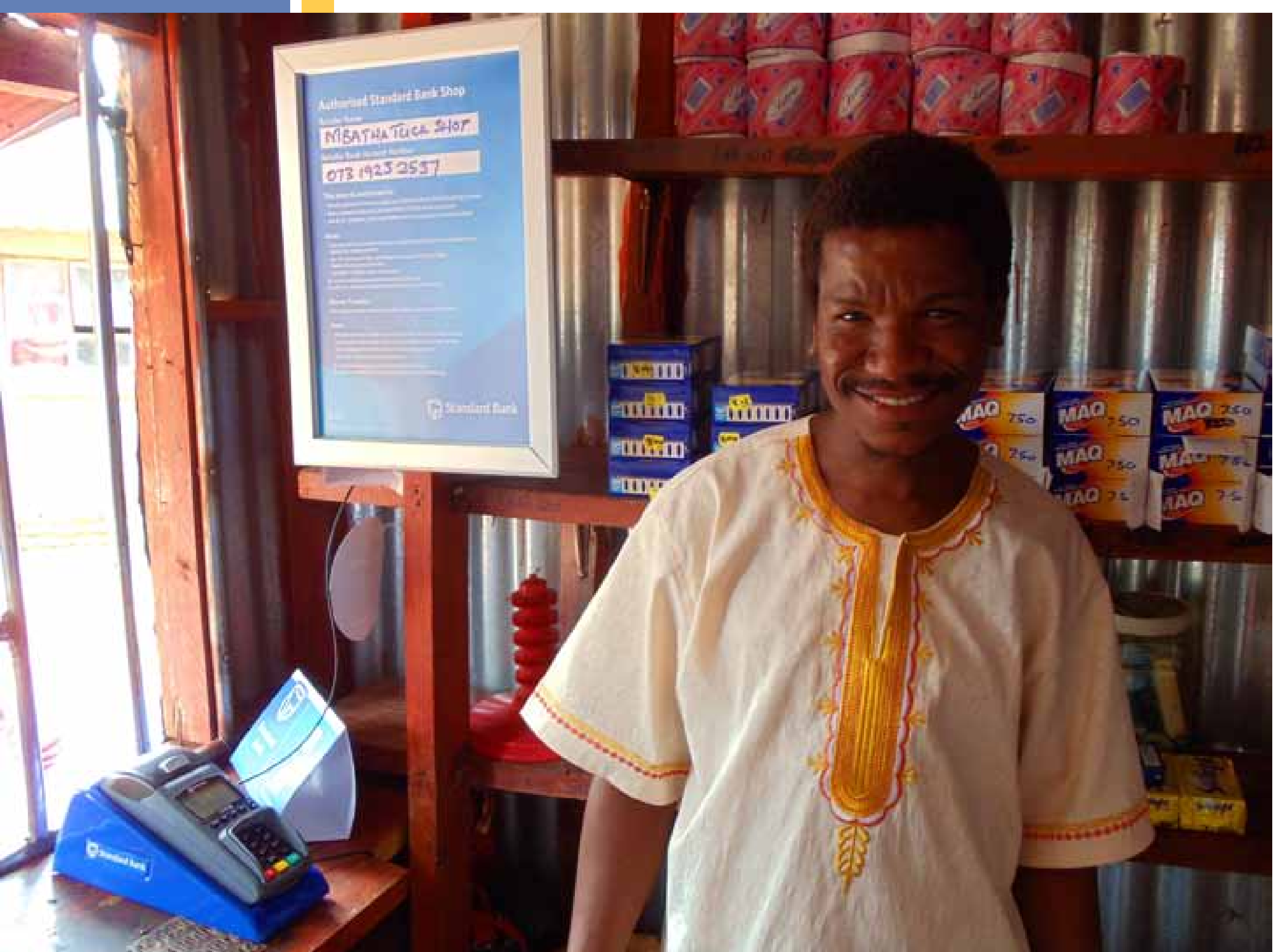
Conclusion

Despite the stakeholder value alignment, it is evident that insurance inclusion through agents requires careful planning at both insurer as well as the implementing bank level. The success of insurance sales through agent banking, would ultimately depend on:

- Product planning: decision on which kind of product could be sold through the agents;
- Channel planning: defining the roles, processes, and incentives for the bank agents and how these fit into the overall bancassurance strategy of the insurer, as well as the banks; and
- Marketing planning: to maintain brand identity and ensure that clients come to buy insurance over the counter at agent locations.

Insurance Through Bank Agents: How Can It Be Done?

Premasis Mukherjee and Jitendra Balani



Insurance sourcing through bank agents is becoming increasingly popular.[1] Though the reason for such enthusiasm can be understood, the challenges cannot be overlooked either. In previous chapter, we argued that product and channel planning are imperative to overcome the challenges. In this note, we detail the product and channel planning strategies.

Product Level Challenges and Need for Segments

The bank agent channel may not be suitable for all insurance product types. In insurance, product strategy is dependent on the incentive strategy for the channel. To gain from the bank agent channel, the insurer or bank will require a variable incentive model. However, if value-(premium amount) based commissions are implemented, the bank agent will be tempted to sell high premium products. High value products are often composite/complex insurance products or are savings linked. Both of these require detailed underwriting and transparent solicitation; both of which are questionable in the bank agent channel. Neither insurers nor the regulator, therefore, would be keen on this type of business model. Volume based incentive, on the other hand, can be implemented only where voluminous selling is possible, either because the underlying products are simple and easy to sell, or because the products require limited underwriting. Segmentation of the available insurance products, therefore, is an important component of any bank agent channel strategy.

How to Segment Products

Insurance products by any provider can be segmented based on two criteria:

1. Ease of selling insurance is determined by:

- *Affordability of premiums for target clientele*. Less solicitation and convincing is required to sell low priced premium products, since clients' readiness often is a function of premium price.
- *Linking insurance policies with other high demand financial products* (e.g. credit-life or endowment policies). Selling is easier in products where insurance is linked (either as compulsory or attached product provision) with a financial product that is in high demand.
- *Regulatory obligations* (e.g. motor insurance). Regardless of choice or preference, people buy insurance products that are mandated by the government.
- *Tangibility of benefits*. The easier it is for clients to envision the benefits of a policy, less effort is required to sell the product. Thus, for example, a term life product is tough to sell, because the benefit is a long term possibility with a high chance of a negative emotional reaction. By contrast, people can be more easily convinced about health insurance, since the event insured is common and do not have such emotional attachment.

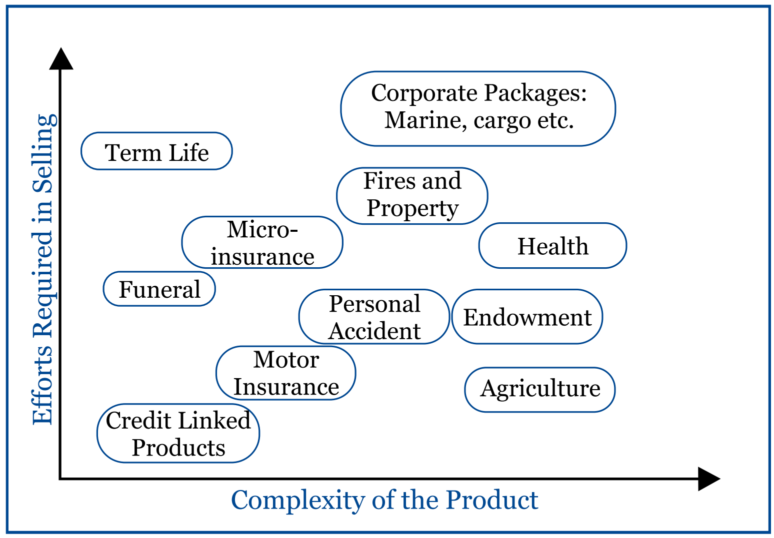
2. Complexity of the product is determined by:

- *Number of covered events in same policy*. Multiple coverage policies often become complex, particularly because of the covariant risks.
- *Underwriting complexity*. Certain products, for example health insurance, need careful underwriting, due to their susceptibility to moral hazard and adverse selection.
- *Documentation requirement*. KYC[2] and risk related documents required in corporate and investment products increase their intrinsic complexity.

[1] Over-the-counter selling of funeral insurance in South Africa, health insurance selling through mobile money operators in Ghana and the Philippines, M-Pesa based insurance servicing in Kenya (Kilimo Salama and CIC's microinsurance), Ezy Pesa based microinsurance in Tanzania are some examples.
[2] Know-Your -Customer

- *Ease of claim settlement process*. The easier it is to identify the occurrence of the underlying insured event, the easier the claim settlement process becomes. This is a challenge that crop and weather insurance face.
- *Specialisation of the product*. Products that require supplementary infrastructure and specialisation are complex because of their unique parameters. For example, agriculture insurance often depends on the meteorological infrastructure and complex indexes developed from them.

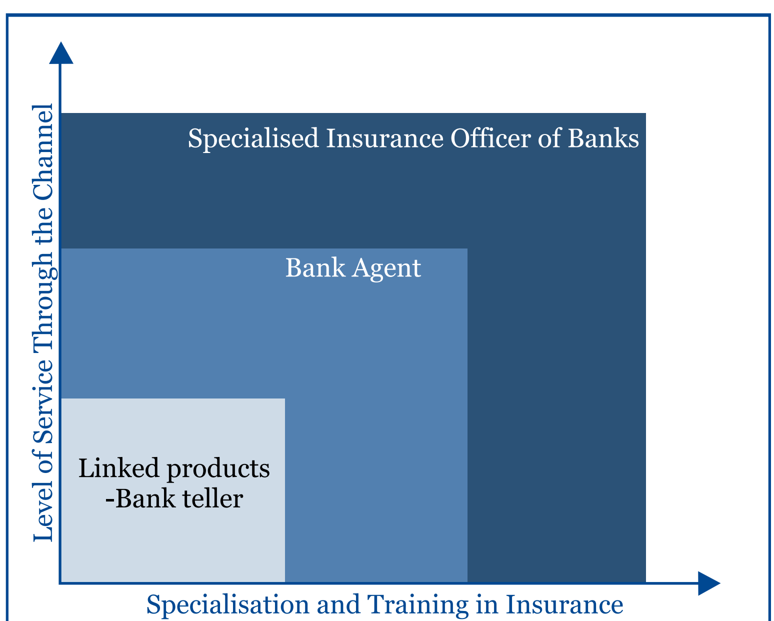
In the figure, insurance portfolio of an insurer is segmented using these two parameters.



Channel Level Challenge

Though the challenges are perplexing, providers consider bank agents to be too lucrative an opportunity to ignore. While the bank agent channel increases the outreach and potential of the bancassurance channel manifold, the expertise of the agents and their training in insurance (or the lack of it) are major bottlenecks in the model. At the same time, clients' trust in and dependence on agents (or any channel) will be a function of the service quality that can be achieved through them. In order to enhance the productivity of the bank agents, therefore, it is imperative to position the channels. The figure below positions different new bancassurance options based on:

- Level of service that can be delivered through the channel; and
- Specialisation and training in insurance.



The ***service potential*** of the channel is determined by:

- The frequency or potential *frequency of customer interaction with the channel*. Regular/ continuous service enhances client confidence.
- *Level of personal contact*. Since mobile or internet based channels are impersonal, their potential

for providing services is restricted (for example solicitation, document collection, personal verification is reduced).

The channel's ***level of specialisation*** is determined by:

- *Training in insurance*. Trained insurance professionals are adept in selling and processing complex insurance products. Training bank agents has not been a priority to date, since they are not seen as having the potential to sell high end products.
- *Exclusivity of the channel for insurance*. A channel that focuses exclusively on insurance is, by definition, specialised in selling insurance.
- *Level of investment to create the channel*. Insurers invest in traditional branch-based and tied agent channels to ensure that these channels are well trained and can sell and service a broad range of products, including those that are complex, thus optimising their productivity.

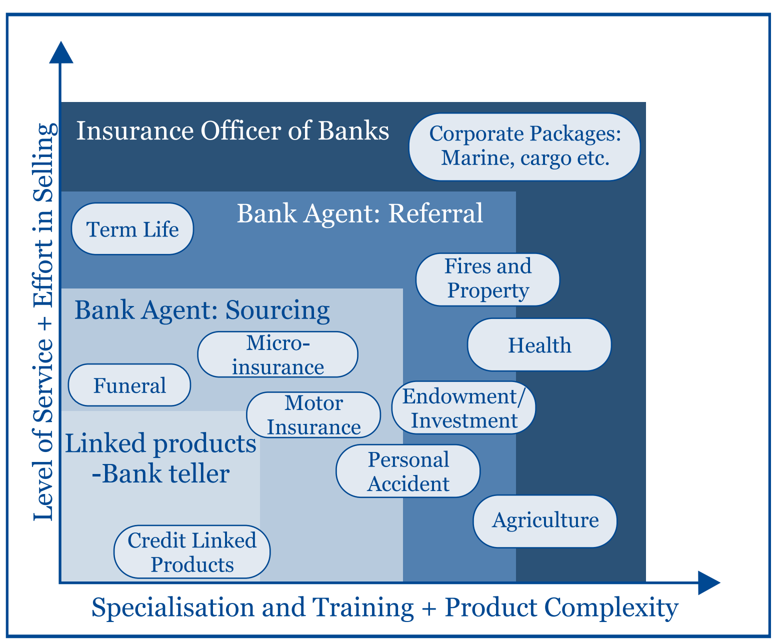
Implementation Pathway

Once the clarity on product segmentation and channel positioning is achieved, the bank or the insurer can proceed to determine how bank agent channel can be used for their insurance business.

It is important to realise that the agent channel is primarily a bank channel, and that bank-based transactions (cash-in/out, remittance, savings, loan sourcing etc.) could eventually overtake the insurance activity. Hence, to keep the agents interested in the insurance business, it is imperative that insurance commissions become a significant part of their income. It is necessary, therefore, to involve agent channels (in some capacity) in multiple products, rather than only sourcing microinsurance policies (as many are doing). Moreover, the bank agent channel will enjoy much higher credibility and traction with customers when it is perceived as the one-stop solution for clients' financial needs. Restricting customer choice to simple term products will not help achieving this perception.

Bank agents should be used not only as a sourcing point, but as referral point too, for products that cannot be sourced directly through them.

In the figure, we have mapped the possible emerging bancassurance channels, according to their suitability sell certain product types. While bank tellers can directly deal with the credit-linked term insurance products, the banks' insurance officers need to mainly focus on corporate insurance or high value, complex products.



Bank agents can sell motor insurance, funeral insurance, simple credit-linked and microinsurance policies, since these are simple and less cumbersome policies. However, bank agents can also be enabled to refer clients for more complex products to banks' insurance officers, and should be remunerated based on converted leads.

Conclusion

Appreciating the complexities of the bank agent channel is pivotal to the success of the channel. Though this note suggests one perspective on how to adopt the channel for insurance inclusion, it is by no means the only one.

The future will show us how different approaches to bank agency-insurance inclusion perform. The model of channel diffusion outlined in this note may unearth the challenges of managing inter-channel conflict. Implementing organisations' management of these risks will impact the viability of this model in long run.

Our Service Offerings

Organisational Strengthening and Risk Management
- Policy Development and Documentation
- Product and Process Re-engineering
- Improving Portfolio Quality
- MIS
- Internal Audit and Control Systems
- Risk Management Framework
- HRM

Strategy Development and Governance
- Strengthening Board Governance
- Institutional Change
- Strategic Business Planning
- Financial Planning
- Strategic Marketing
- Corporate Brand and Identity

Product and Channel Innovations
- Market Research (Qualitative and Quantitative)
- Costing and Pricing
- Pilot-Testing
- Roll-Out
- Product Marketing
- Digital Financial Services Solutions
- Agent Network Development, Monitoring and Management

Investment and Donor Services
- Institutional Assessments
- Due Diligence
- Equity Valuation and Capital Structuring
- Loan Portfolio Assessments
- Evaluation/Impact Assessments

Research and Dissemination
- Microfinance Policy Research
- Product & Service Delivery Research
- Feasibility Studies
- Industry Mapping
- Publications (IFNs, BNs, OPE Series, Research Papers, etc)
- Podcasts

Trainings and Workshops
- Retail Trainings
- Customised Training for Institutions
- AMI
- CEOs Workshop
- Webinars and Virtual Conferences
- E-/Distance Learning
- Exposure Visits

edgecommunication@gmail.com

MicroSave

Market-led solutions for financial services

India - Head Office

B-52, Kapoorthala Crossing, Mahanagar Extension,
Mahanagar, Lucknow-226006, UP, India
Tel: +91-522-2335734 | Fax: +91-522-4063773

Offices across

• Asia • Africa • Latin America

E-Mail: info@*MicroSave*.net Website: www.*MicroSave*.net