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## ACHIEVING SCALE AND EFFICIENCY IN MICROINSURANCE THROUGH RETAIL AND BANKING CORRESPONDENTS

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## EXECUTIVE SUMMARY

Microinsurance has achieved significant growth over the last decade and a number of models have achieved considerable scale (Thom et al., 2013), a prerequisite for financial viability. However, high volumes do not always translate into profitability, which requires an examination of the underlying cost structures to ensure that growth translates into profit. As attention now shifts from driving scale at any cost to driving high-quality products at scale, finding a low-cost yet viable distribution channel is a critical consideration. Across the world, insurers have shifted away from traditional agents and brokers to partner with various alternative distribution channels – ranging from churches, trade unions and mobile network operators to banks, retailers and even civil service organizations - as a way of reaching critical mass at low cost. This study examines two of these channels – banking and retail correspondents – studying four examples in four countries. It seeks to understand the factors driving profitability and the client value proposition of these models. This is a critical issue given that the alternative distribution value chain is typically a lengthy one and sees revenue being shared between multiple partners, potentially resulting in a strained business model and a compromised customer value proposition.

		Channel ownership	
		Own network	Third-party network
Maturity	Mature	Malayan-CLIS	Hollard-Edcon
	Earls-stage pilot	Bradesco	HDFC-FINO

The four case studies were segmented according to maturity and whether there was direct or indirect ownership of the value chain. Using a financial analysis tool adapted from the Bill and Melinda Gates Foundation’s ACTA framework, we were able to draw conclusions concerning the drivers of value within the partnerships. In addition, the ILO’s PACE assessment tool allowed us to gain an understanding of the client value proposition of products distributed through these partnerships.

## MAIN FINDINGS

Clear relationship between maturity and viability as mature models are in positive net position. Building a viable alternative distribution model of course takes time, as only the mature models (Hollard-Edcon and Malayan-CLIS) have achieved scale and a positive net position indicating viability. However, as Professor Clayton Christensen states, one should be “impatient for profit, but patient for growth”,<sup>1</sup> so examining early-stage pilots is valuable in that it furthers understanding of what the potential for profit could be, so that one does not just increase the losses as one grows.

<sup>1</sup> Christiansen and Raynor (2003). See also Anthony, S. et al., 2008, The innovator’s guide to growth: Putting disruptive innovation to work.

Early-stage pilots experience challenges with viability, as shown by negative net position. The fact that early-stage pilots are at a negative net position is indicative of the fact that achieving viability (and possibly scale) does require time and close oversight and management of costs – all the more so with alternative distribution business models, where there are multiple stakeholders and processes. Both the early-stage pilots in this study have achieved limited scale (HDFC-FINO ~850 and Bradesco ~30,000) in comparison with the mature models (Malayan-CLIS, 4 million clients, and Hollard-Edcon, 250,000 clients).

Adjacencies can act as the glue that aligns incentives between the partners and improves client value. Insurers are more likely to get buy-in from stakeholders if the product creates positive adjacencies that are linked to the stakeholders' core operations. Adjacencies also translate into better customer experience – a key client value proposition component and an important strategy to win the market. Ultimately, there is a correlation between adjacencies and the client value proposition.

Other than creating necessary incentives to stakeholders in the value chain, removing barriers to scale and profitability are key to unlocking scale. The HDFC-FINO and Bradesco models both had negative net (financial) positions, largely because of barriers to agent activation and sales conversion. While these challenges were partly linked to the incentive structure in place, the core issue was the fact that additional agent training was required in both instances. Deploying better-trained agents and removing point-of-sale barriers could be the keys that unlock viability through creating greater value for clients. It is also important to have more agents who can sell products. For example, for the Bradesco product only 600 correspondents out of the entire network of 43,000 were activated to sell microinsurance.

Cost sharing as a means of overcoming viability challenges. In cases where there is a limited business case for one partner and where there are viability challenges, partners may need to consider finding ways to share various costs, including promotional and training costs.

Simple products as the market-maker. It is easier to distribute simple products (rather than complex products) through alternative distribution partnerships. Complex products will be more costly to distribute, owing to the additional effort and investment required (training and extensive promotion). On the other hand, a simple product will also be easier to sell, make it easier to create adjacencies for partners and cost less to distribute. Partnerships may begin by distributing simpler products at first and then over time increasing the complexity once the market is familiar with insurance.

Creating client value with viability and scale can take time. The products with the highest average PACE (client value proposition assessment) scores were both mature models with a positive net position. Partners must also be willing to allow the model to “evolve” and be prepared to invest in the necessary changes (or in adapting necessary levers) that will improve the client value proposition and viability of the model, including adapting product features and training agents. This will support the next stages of take-up, with the aim that the product shifts from a supply-push to a demand-pull model.

Client value as a prerequisite for scale (and viability). It is difficult to attain scale without a strong client value proposition. Poor-quality products undermine the effects of word of mouth, which can be a major driver of take-up. Whilst a number of models have reached scale through compulsory sales, such as credit life linked to a loan, this becomes harder as one moves into voluntary products. Scale is more likely to be achieved when there is a solid client value proposition and a positive experience for clients, as demonstrated in the case of Hollard-Edcon and Malayan-CLIS, who had high scores for the Product and Experience dimensions in the PACE assessment, respectively, as well as high scale and profitability.

## KEY SUCCESS FACTORS

In analysing the case study partnerships and products, key success factors were identified, which include:

- Agent networks play a key role in extending the reach of insurance. They also improve the client value proposition by serving as a tangible access point to clients.
- Providing adequate incentives to all parts of the value chain ensures a harmonious and sustainable partnership. Captive/own network models can allow for cross-subsidization if there is strategic value for the group.
- Retail and banking correspondents provide efficient and convenient premium payment mechanisms (thus improving client value). For example, the Alagang Cebuana Plus product structures sales around the pawning cycle of 4 months. Jet-Hollard's client store account collection via automatic debit order drives persistency.
- Efficient and convenient client servicing can be promoted by delegating responsibilities to the correspondents, as happens with Malayan-CLIS.
- Leveraging the distribution channel brand overcomes distrust of insurers and can drive cost-efficiencies.
- Partner resources and channels can be combined in creative ways to take advantage of their infrastructure and expertise.
- Investing in systems can drive efficiencies in the long run and at scale (but will entail short-term costs).



## 1. INTRODUCTION

In recent years, microinsurance, insurance sold to the low-income market, has gained international recognition as a key component of financial inclusion through offering valuable risk management tools and a means for insurers to tap into new and previously unreached markets. The Microinsurance Network reported that the microinsurance market grew from an estimated 78 million clients in 2007 to in excess of 263 million clients in 2013. The success of microinsurance is predicated on high volumes, which means that scale is a prerequisite for financial viability (Thom et al., 2013).<sup>2</sup> However, high volumes do not always translate into profitability. An examination of the underlying cost structures is required to ensure that growth translates into profit.

To drive scale in microinsurance, insurers have begun to use a wide range of alternative distribution channels (Smith et al., 2011). Through partnerships with these channels, which include mobile network operators, supermarkets, corner shops, independent agent networks and other aggregators such as community groups and churches, insurers are able to leverage the channel's trusted brand, as well as its close proximity to, and knowledge of, clients (Merry et al., 2014).

While these alternative distribution partnerships have allowed insurers to reach the low-income market (and in some instances achieve scale), the sustainability of these partnership models comes into question, as the revenue is often split across a lengthened value chain, which potentially results in a strained business model. Key questions that arise for these alternative distribution models are:

- What is the value proposition of the distribution partnerships for insurers and their partners?
- What are the main factors driving profitability and how can they be modified or adjusted to improve it?
- What role do distribution partners play in helping insurers achieve scale – especially within a previously unserved target market?
- What is the value proposition for (low-income) clients of the products sold by alternative distribution partnerships?
- What effect does client value have on profitability?

The ILO's Impact Insurance Facility commissioned Bankable Frontier Associates (BFA)<sup>3</sup> to conduct a study which analyses four retail and banking correspondent partnerships across four countries in order to address the above questions and to shed light on the main factors driving profitability and the client value proposition.

While there are a variety of alternative distribution partnerships across the world, this study is limited to retailer-linked correspondents (which is a form of brandassurance or retailassurance – insurance distributed through retailers) and banking correspondents (a form of bancassurance, insurance sold through banks).<sup>4</sup> Whilst the banking correspondent models in this study are less mature than the retail correspondent models, comparing both models provides valuable insights concerning the drivers of scale and profitability.

<sup>2</sup> Based on a summary of Munich Re Foundation supported landscape studies of Latin America (2011), Africa (2012) and Asia (2013)

<sup>3</sup> Bankable Frontier Associates (BFA) is a global strategy financial inclusion firm whose core objective is advancing financial inclusion within developing countries through providing a variety of consulting services to key stakeholders in supporting the provision of financial services to the low-income market.

<sup>4</sup> Although Indian regulations refer to business correspondents rather than banking correspondents, for simplicity we categorize them as banking correspondents and retail correspondents.

The study aims to draw out lessons from these alternative distribution partnership models that can be applied to other business models and partnerships. The four distribution partnerships that will be analysed in this paper are shown in Table 1.

**Table 1. The four distribution partnerships analysed**

Model	Partnership <sup>1</sup>
Banking correspondents	Bradesco, Brazil
	HDFC-FINO, India
Retail correspondents	Malayan-CLIS, Philippines
	Hollard-Edcon, South Africa

<sup>1</sup>The partnerships are named according to the key partners.

**1.1. METHODOLOGY**

Phone and face-to-face interviews were held with key stakeholders across the value chain. In-store visits were conducted to gain a practical understanding of the business and operational models deployed. Mystery shopping exercises were used to understand the client value proposition of the products under the alternative distribution partnership in comparison with alternatives. Desktop research was also conducted to source additional information.

Two analytical frameworks were used in this study.

**ACTA Insurance Economics Framework.** This study uses an insurance economics framework that is adapted from the Bill and Melinda Gates Foundation’s ‘ACTA’ framework for payment systems.<sup>5</sup> We use the ACTA framework to analyse the performance and viability of the alternative distribution partnership models that are the focus of this study. The framework does this by breaking the models down into four key components: Actuarial income and expenses (A), Client origination income and expenses (C), Transactions (T) and Adjacencies (A). This enables an analysis of the major factors driving viability, profitability and losses in order to create an understanding of what is required to drive profitable scale (Bill and Melinda Gates Foundation, 2013).

**PACE tool.** The PACE tool was developed by the ILO’s Impact Insurance Facility to assess the client value proposition of a microinsurance product in comparison with other alternatives (similar products, social security and informal risk coping mechanisms, among others) within a particular market. The client value proposition is measured across four dimensions: Product, Access, Cost and Experience (PACE) (Matul and Kelly, 2012). The PACE tool is used in this study to understand the client value proposition of the products being examined.

Furthermore, the results of the analyses from both the PACE tool and ACTA framework were collated to test the link between client value and profitability.

<sup>5</sup> The ACTA framework for payment systems was first introduced by the Bill and Melinda Gates Foundation in Fighting poverty, profitably: Transforming the economics of payments to build sustainable, inclusive financial systems (Bill and Melinda Gates Foundation, 2013).



## 1.2. DOCUMENT OUTLINE

The rest of this document is structured as follows:

**Section 2** provides a detailed overview of the four partnerships that are being analysed in this study.

**Section 3** discusses the results of the analysis of the four partnerships carried out using the ACTA framework.

**Section 4** discusses the results from the PACE analysis of the client value proposition offered by four products under the four partnerships.

**Section 5** collates the results from both the ACTA and PACE analyses and seeks to explore whether there is a correlation between client value proposition and viability.

**Section 6** is the conclusion of the study and highlights the key lessons that are drawn from the analyses.

## 2. OVERVIEW OF THE FOUR COUNTRY MODELS

This section provides an overview of the four distribution partnership models, including the operational and business models deployed.

The various case studies highlight a number of differences between the partnerships, including the partnership structure, scale achieved, maturity (in terms of time since inception), distribution partners and the type of insurance product(s). It is important to note that the market conditions and regulations are unique to each country and thus impact on the distribution strategy and structure adopted. Furthermore, environmental and cultural considerations also influence the products provided. Regardless of these differences, there are still key lessons that can be drawn from a comparative analysis of the models.

Table 2 shows a snapshot of the four case studies and provides information concerning the type of distribution channel used, as well as key product information, such as premiums and coverage. Although in some cases, multiple products are offered through the channels, the scope of this paper is limited to one primary product per distribution channel, as represented in Table 2.

**Table 2. Snapshot of four case studies**

Name of partnership	Bradesco	HDFC-FINO	Malayan-CLIS	Hollard-Edcon
<b>Country</b>	Brazil	India	Philippines	South Africa
<b>Alternative distribution channel type</b>	Banking correspondent	Banking correspondent	Retailer	Retailer
<b>Product name</b>	Expresso Premiável	Hospital Cash and Personal Accident Plan	Alagang Cebuana Plus	Jet-Hollard Family Funeral Plan
<b>Product</b>	Life + accident + disability	Health + accident (and optional tele-medicine)	Accident + disability + fire	Funeral
<b>Premium payment</b>	Single premium	Single premium	Single premium	Monthly recurring, auto-debit
<b>Product term</b>	Annual	Annual	4 months	Monthly
<b>Average premium amount – Monthly equivalent (US\$)</b>	0.38	0.43	0.16	4.40
<b>Coverage (US\$)</b>	2,200	100 – Hospitalization 1600 – Death 1600 – Disability	530	1285

## 2.1. UNDERSTANDING THE DIFFERENT DISTRIBUTION PARTNERS IN THE VALUE CHAIN

There are various stakeholders across the alternative distribution value chain.

- 1. Insurers/underwriters.** Insurers underwrite the products provided through the partnership. They are typically responsible for product development and claims administration. They often undertake agent training.
- 2. Retailers.** In this study we define retailers as entities whose primary focus is retailing consumer goods and who may provide a broad range of retail services and products to a customer base. Retailers typically operate a chain of stores across a particular country or region.
- 3. Agent networks.** A variety of agent networks are used in microinsurance partnerships. In this study the agency networks are retail chains and pawnshops. The agent networks are typically responsible for the training and recruitment of agents. This responsibility may be shared with the insurer (underwriter) and other partners within the value chain.
- 4. Banking correspondents.<sup>6</sup>** Banks are forming commercial partnerships with various outlets, such as retailers and supermarkets, to circumvent the cost of setting up physical bank branches in poor or rural areas. These outlets typically act as mini bank branches and are commonly referred to as banking correspondents (Merry et al., 2014). They are equipped with point-of-sale devices that enable them to provide all or most services that would be found within a bank or financial service provider's branch, including policy sales, cash withdrawals and deposits (Merry et al., 2014). They ultimately act as the agent for a bank or financial service provider and are paid a commission fee for their services. Succinctly put, banking correspondents are an alternative delivery channel for financial services (Handoo, 2013).
- 5. Administrators.** Administrators provide a key support role within some of the models in this study. Administrators used across these partnerships include:
  - a. insurance administrators** – entities that administer the insurance schemes within the different partnerships; and
  - b. third-party agent managers** - are responsible for the management and administration of agent recruitment, performance and deployment.
- 6. Technical service providers.** Technical service providers typically provide some form of specialized technical support and expertise within the partnership. Examples of such support include overseeing and managing the deployment of the payment platform.

## 2.2. THE PRODUCTS AND THEIR CONTEXTS

The products offered are influenced by local environmental considerations, cultural drivers and client profile. Responding to the needs of the market, the initiatives have adapted products accordingly. For example:

- 1. Jet-Hollard Family Funeral Plan (South Africa).** The Hollard-Edcon distribution partnership is structured around providing funeral cover, owing to the cultural significance of preparing for death in South Africa. As funeral insurance is generally well understood, it is suitable for low-advice or non-advice-based sales models.
- 2. Alagang Cebuana Plus (Philippines).** The Alagang Cebuana Plus product is structured as a personal accident, disability and fire product. In previous years the product did not have fire cover; however, clients requested it, owing to the fact that a large majority reside in shacks that are prone to fires.
- 3. Espresso Premiável (Brazil).** Market research conducted by Bradesco showed that one of the main risks facing clients (in particular low-income clients) in major Brazilian cities was violence. This is reinforced by the fact that areas where low-income families and communities reside generally have high rates of violence. In response to this, Bradesco Seguros structured the Espresso Premiável product as a life, accident and disability product with a personal accident and tele-medicine component.

In the following sub-sections we review the four partnerships. The discussion is structured as four case studies. Each provides an overview of the key stakeholders (and their responsibilities within the partnership), the structure and the product.

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<sup>6</sup> Within broader financial inclusion and microinsurance literature, the term business correspondent is used interchangeably with the term banking correspondent. For the purposes of this document we use the term banking correspondent.

## 2.3. BRADESCO

### 2.3.1. Overview of the key partners and their responsibilities

Grupo Bradesco (Bradesco Group) is a leading financial services conglomerate in Latin America. The group is divided between its banking arm (Banco Bradesco) and its insurance arm (Bradesco Seguros), with other entities falling under either of the two (ILO, 2013).

**Banco Bradesco.** Banco Bradesco is one of the largest banks in Brazil and has built an extensive network of low-cost banking correspondents through Bradesco Expresso, a division that distributes a variety of financial services and products, including insurance. The local Bradesco branches have some responsibility for the banking correspondents attached to the branch.

**Bradesco Seguros.** Bradesco Seguros is the insurance arm of the Bradesco group and was founded by Banco Bradesco in 1935. Bradesco Seguros was the first bank-owned insurance company in Brazil. Although the bulk of its operations are in Brazil, Bradesco Seguros has established operations across Latin America and is now the largest insurance group in the region, with approximately 37 million policyholders in Brazil alone and annual revenues of approximately US\$20 billion (Bradesco, 2012; ILO, 2013).<sup>7</sup> Partnering with group entity BSP Affinity, Bradesco Seguros' key responsibilities include product development and oversight of the policy and claims administration, as well as claims payouts.

**Bradesco Seguros e Previdência (BSP) Affinity.** BSP Affinity is Bradesco Seguro's affinity arm and is responsible for selling insurance through large affinity groups, including credit card companies, retailers and Bradesco Expresso (ILO, 2013). BSP Affinity serves as the operational lead for the model and plays the key role in activating and training the banking correspondents.

**Bradesco Expresso.** Bradesco Expresso is Banco Bradesco's arm for its network of banking correspondents and was set up by Banco Bradesco in 2012 to sell and distribute various financial services and products. To date, Bradesco Expresso has a network of over 46,000 banking correspondents, with 600 of these being qualified to sell microinsurance (Bradesco, 2012; interviews; Merry et al., 2014). Bradesco Expresso enables Banco Bradesco and Bradesco Seguros to expand their reach in the low-income segment through the banking correspondents, which comprise small independent retailers, supermarkets, pharmacies, department stores and retail chains.

**Banking correspondents.** Banking correspondents serve as Bradesco's agents and extend the group's financial services to their client base. They use a point-of-sale device for Bradesco financial transactions, including banking and insurance.

**Multipliers.** Bradesco Expresso services and supports its banking correspondent network through representatives referred to as "multipliers". The multipliers also serve as insurance brokers on behalf of the Bradesco Group's insurance arm, Bradesco Seguros. In Brazil, insurance regulation only permits registered intermediaries (brokers) to sell insurance, which requires each multiplier to qualify and apply for a broker licence. As registered intermediaries, the multipliers are responsible for training the banking correspondents, providing ongoing support and monitoring performance.

**Orizon.** Orizon is a health insurance administrator supporting the sales and administration of various insurance products sold within the Bradesco Group, which is one of its main shareholders. Orizon's primary responsibility is supporting the administration of the policies sold within the partnership.

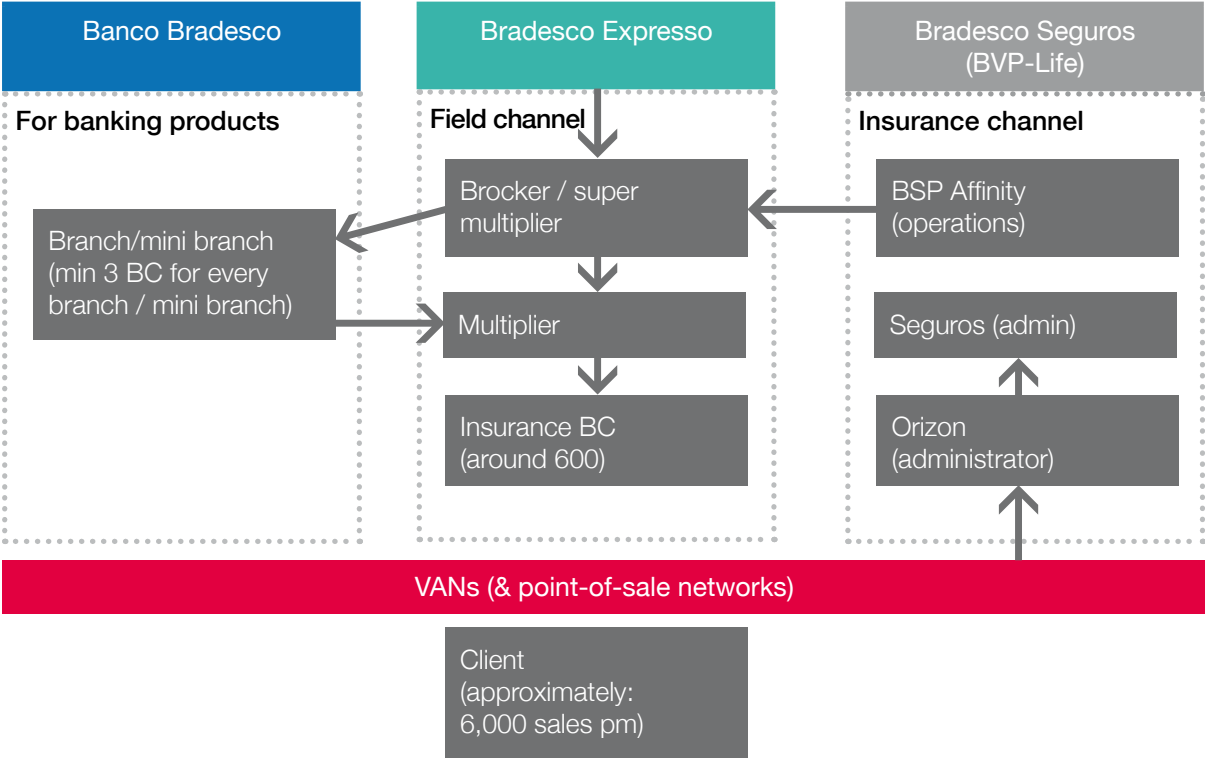
**Value-added networks (VANs).** Bradesco Expresso works with point-of-sale solution providers, called value-added networks, to provide payment and connectivity services to Bradesco Expresso. To date, six out of fifteen VANs have integrated microinsurance into their service offering.

<sup>7</sup> Using the US\$/Brazilian Real (BRL) exchange rate of US\$ 1 = BRL 2.24 as at 16 June 2014.

**2.3.2. Overview of the partnership structure**

Bradesco Expresso serves as the field channel overseeing the multipliers, and is also responsible for overseeing and managing the 600 banking correspondents that are trained and qualified to sell insurance. Bradesco Seguros serves as the insurer providing insurance products to BSP Affinity and Orizon, both of which are responsible for administration and support. The operational model is more broadly supported by the six VANs providing technical support through their payment platform and solutions. Figure 1 shows the operational model for the Bradesco alternative distribution partnership.

**Figure 1. Bradesco operational model**



Since 2012, BSP Affinity and Bradesco Seguros have leveraged Bradesco Expresso’s extensive network of banking correspondents to distribute insurance. This model was initiated by BSP Affinity and is still in the pilot phase, as Brazilian insurers were only permitted to register new clients remotely via agent distribution models in 2012 (ILO, 2013). A variety of insurance products is offered, including the Bradesco Expresso Premiável product, a life insurance product bundled with accidental death and disability cover.

Table 3 shows the role of the various partners across the value chain. BSP Affinity takes primary ownership of the partnership model and the overall value chain.

Table 3. Mapping the stakeholder value chain - Bradesco

Entity >	Bradesco Seguros	Banco Bradesco	BSP	Broker (multiplier)	VAN	Orizon	Banking correspondent
Role	Insurer	Banking sister concern	Affinity compagny-Operational lead	Intermediary in the sales channel	Technology provider	Claims administrator	Sales
Business strategy/ project owner			x				
Product development	x		x				
Agent recruitment		(x) <sup>1</sup>					
Agent training			x	x			
Product promotion			x				
Sales					x		x
Policy admin	x					x	
Client servicing*	x						x
Claims servicing*	x					x	
Claim pay-outs	x						

<sup>1</sup> Agent recruiting was not done specifically for insurance distribution as the Expresso distribution network was already being used by Banco Bradesco for its suite of products.

\* BSP call centre also used to support client and claims servicing.

### 2.3.3. Current performance of the model

As an early-stage pilot that began in late 2012, the Bradesco model faces a range of challenges, which need to be overcome for it to achieve scale.

**Figure 2. Some Bradesco banking correspondent outlets**



The first major challenge is the Brazilian insurance regulatory requirements for alternative distribution via mass channels, which require a certified broker to be a part of the value chain when an agent-based distribution channel is used. Qualified brokers play a key role in training and activating banking correspondents. This impedes and limits agent activation, as evidenced by the fact that there are only 600 banking correspondents (out of 46,000) that are qualified to sell insurance. These regulatory requirements are an impediment to activating banking correspondents to sell insurance, as they increase cost and delay the roll-out, because the training takes considerable time. It is noted that following the completion of this study, there was some concern that the new regulations might even close down this model.

A second challenge is that the VAN needs to first activate the insurance module and then link it to Orizon's system. This is a concern – especially when there are technical challenges that could impede or delay the sale. This also adds an additional cost layer to the operational process.

Additional implications for the viability of the model include:

- Inability to achieve scale in the short term, owing to the insurance regulatory requirements, which require agents (banking correspondents) to be activated and trained by a qualified broker (multiplier).
- Most of the players in the partnership value chain fall within the Bradesco group, which may allow a certain amount of strategic cross-subsidy, with the aim of building the brand and providing benefits to the broader group. It is always easier to discuss the absorption of costs and cost-sharing structures within a group rather than with an external party.
- Despite the low number of qualified insurance agents, the number of policies sold per agent has been relatively impressive, owing to the Bradesco Group's active support of the Bradesco Expresso banking correspondent network.
- An additional factor that affects Bradesco's viability is the highly sophisticated process and technology employed in this model. The system is built for scale, and its cost cannot be sustained at this stage of the pilot and given current scale.

#### **BOX 1: BRADESCO'S SUPPORT FOR AND BACKING OF THE EXPRESSO STRATEGY**

Banco Bradesco uses the Bradesco Expresso distribution model not just as a mechanism to provide financial services to the financially underserved or excluded, but also to enhance branch efficiency by channelling low-value transactions and accounts out of the branch and towards the banking correspondents. Each branch should ideally be supported by five Bradesco Expresso outlets. To this end a significant percentage of the Bradesco Expresso banking correspondents are chosen within a reasonable distance of a Bradesco branch. This has greater implications for the model than just the efficiency of Bradesco branches.

- Bradesco branches direct clients to banking correspondents to conduct low-value transactions. This ensures a steady flow of banking transactions to banking correspondents and improves the viability of the model.
- The branding, physical proximity and close ties to the branch increase brand association and trust in the model.
- This trust then allows Expresso to become a brand of its own, which then could be expanded to more distant locations that might not be near a branch, as is evidenced by the recent expansion of its network into central and western rural areas in Brazil.

## 2.4. HDFC-FINO OVERVIEW

### 2.4.1. Overview of the key partners and their responsibilities

**HDFC ERGO.** The insurer/underwriter within the partnership. As the entity with ultimate responsibility for the value chain, HDFC ERGO's role is focused on strategy, product development, policy and claims administration.

**FINO.** FINO (encompassing FINO PayTech and FFF) – both entities are discussed in greater detail below.

**FINO PayTech.** FINO PayTech is a technology service provider that provides a complete electronic banking technology payment platform for financial services and products targeting the low-income market. FINO Paytech also has an extensive service delivery channel, including an affiliated banking correspondent, FINO Fintech Foundation (FFF). Within this partnership, FINO Paytech serves as the technical service provider (FINO, 2014).

**FINO Fintech Foundation (FFF).** FFF is the non-profit banking correspondent arm of FINO PayTech. FFF's primary role is creating and managing FINO's network of banking correspondents (agents), and it has been appointed as HDFC ERGO's corporate agent. As an intermediary it distributes a range of financial services, including banking and insurance, and has a banking correspondent network of over 40,000 client service point (CSP) agents,<sup>8</sup> with 1,000 of these activated to sell insurance products. A CSP may be an individual agent (or bandhu, a Bengali term meaning friend or helper) or an outlet (for example, an airtime vendor or a grocery store). Each CSP has a point-of-sale device they use to sign up clients for low-cost savings accounts. The CSPs also use the same devices to sell the insurance cover. FFF manages CSP agent performance through its field and supervisory support structures, using block coordinators. Each block coordinator manages approximately a dozen banking correspondent/CSP agents and conducts visits every 1 to 2 days to address issues in the field, monitor progress and manage liquidity.

Until early 2013, only non-profit entities were permitted to function as banking correspondents under India's regulations. Thus FINO was required to set up a separate non-profit unit, FINO Fintech Foundation, which was permitted to act as a banking/business correspondent.

### 2.4.2. Overview of the partnership structure

Figure 3 provides an overview of the HDFC-FINO operational model and the role split between FINO and HDFC ERGO. FFF serves as the field channel responsible for overseeing and managing the banking correspondent network and for servicing clients, while HDFC ERGO serves as the insurance channel responsible for product development, marketing and administration.

HDFC ERGO and FINO (encompassing FINO PayTech and FFF) partnered to distribute a bundled hospital cash plan and personal accident product to clients located in rural parts of India through FFF's banking correspondent network (Merry et al., 2014). Clients also have the option to add a tele-medicine component ("dial a doctor"), albeit at a higher premium. A separate stand-alone personal accident product was also sold but this is not covered in this study.

<sup>8</sup> FINO PayTech, August 2014.

**Figure 3. Overview of HDFC-FINO operational model**  
 FINO in the diagram represents both FINO PayTech and FFF.

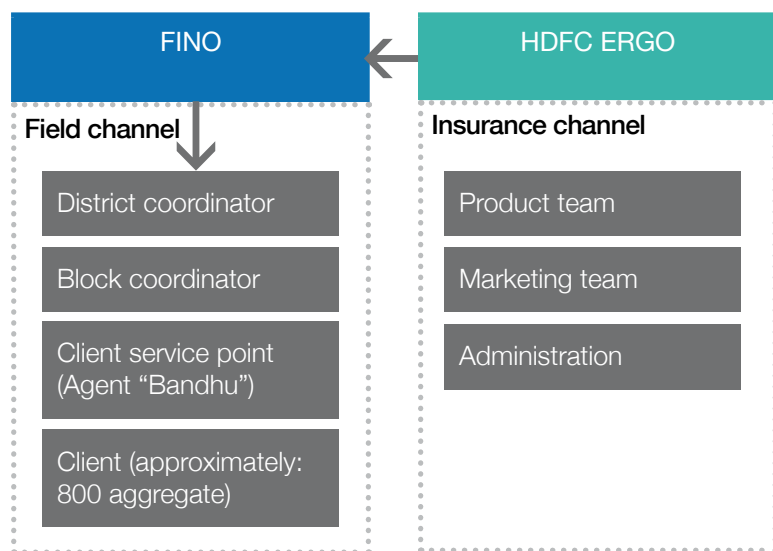


Table 4 shows the roles of various partners across the value chain.

**Table 4. Mapping the stakeholder value chain – HDFC-FINO**

Entity >	HDFC ERGO	FINO (FFF and PayTech)
Role	Insurer	Distribution partner
Business strategy/ project owner	X	
Product development	X	
Agent recruitment		(X) <sup>1</sup>
Agent training	X	X
Product promotion	X	X
Sales	X	X
Policy admin	X	
Client servicing*	X	X
Claims servicing*	X	
Claim payouts	X	

<sup>1</sup> Agent recruiting was not done specifically for insurance distribution.



Ultimately the HDFC-FINO model works in a similar way to the Bradesco banking correspondent model, with the key difference being the channel ownership structure. Bradesco Espresso was specifically created as the dedicated banking correspondent arm of the Bradesco Group. Under the HDFC-FINO partnership, neither party has any link to the other, as the latter (FINO) serves as an independent third-party service provider to the former (HDFC).

#### 2.4.4. Current performance of the model

HDFC-FINO's distribution model is another example of an early-stage pilot, encountering challenges that are similar to those of the Bradesco initiative. The key issue afflicting the HDFC-FINO model is the lack of scale, which severely undermines its sustainability although this is because the roll-out is at an early stage and so such challenges are expected.

Unlike Bradesco, where agent activation was a significant impediment to scale, client acquisition has been a huge challenge for the HDFC-FINO distribution partnership. FINO has over 1,000 activated insurance agents, with only 600 active agents. However, only about 850 clients<sup>9</sup> are being serviced through the channel. This amounts to fewer than 0.02 clients per banking correspondent/CSP agent per month since the inception of this model in 2011. At that scale, assessing the business viability of the model is futile and for this reason we will need to apply some levers to test the assumptions at scale, as will be shown in Section 3 below. This will allow us to analyse the viability of this distribution model more accurately.

### 2.5. MALAYAN-CLIS OVERVIEW

#### 2.5.1. Overview of the key partners and their responsibilities

**Cebuana Lhuillier Insurance Solutions (CLIS).** CLIS is the non-life insurance arm of the P.J. Lhuillier group of companies, a conglomerate that owns and operates a number of different companies in the Philippines, including Cebuana Lhuillier Pawnshop, the country's largest and leading chain of pawnshops (Thom et al., 2014; CLIS, 2013).. CLIS' primary responsibility within the value chain is overseeing and managing the sale of the product, and it includes agent recruitment. The product is sold by agents that work within individual pawnshop branches. CLIS serves as the corporate insurance agent of Malayan (the underwriter) and is also primarily responsible for agent training.

**Cebuana Lhuillier Pawnshop.** This is the flagship company of P.J. Lhuillier, Inc and it provides pawn brokering, money remittance, insurance, bill payment, collections and e-loading services through a network of 1,700 stores across the Philippines (Thom et al., 2014; CLIS, 2013).

**Malayan Insurance Co., Inc.** A leading non-life insurance company founded in the Philippines in 1930, the company has been ranked as the country's top insurer from 1970 to the present. Malayan serves as the underwriter within the distribution partnership and has a limited claims management and administration role.

#### 2.5.2. Overview of the partnership structure

In 2004, CLIS (then operating as PLIA) partnered with Malayan Insurance Co. to offer clients Alagang Cebuana, a personal accident coverage product. In 2008, the product was redesigned, after client feedback and market research, to add property insurance against fire. The revised product was renamed Alagang Cebuana Plus (Thom et al., 2013).

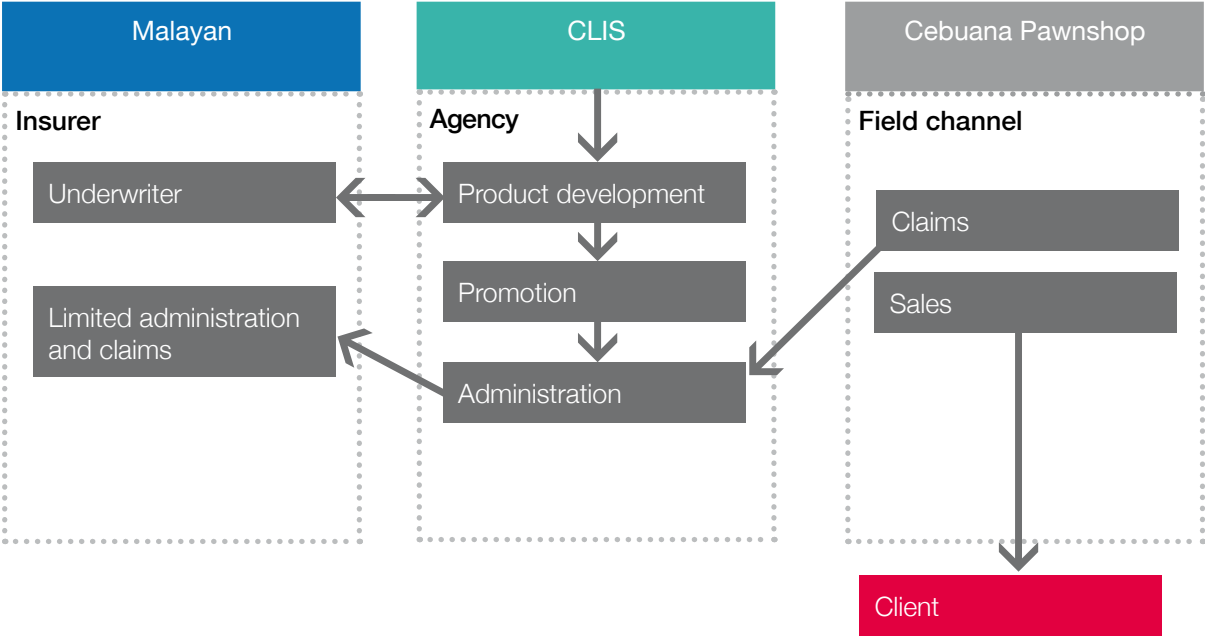
<sup>9</sup> 850 clients were being served at the time the project was undertaken.

Responsibilities shared among different partners include the following:

- Both CLIS and Malayan have some responsibility for product development, policy administration, claims serving and claims payouts.
- Both Cebuana Pawnshop and CLIS are responsible for agent training, and client and claims servicing.

Figure 4 shows the operational model for the Malayan-CLIS partnership.

**Figure 4. Overview of CLIS operational model**



While CLIS and Cebuana Pawnshops fall under the P.J. Lhuillier group of companies, Malayan Insurance Co. does not have any formal link to either of these entities. CLIS serves as Malayan’s agent while Cebuana Pawnshop serves as the field channel distributing the Alagang Cebuana Plus product. Clients purchase the product in a pawn shop at dedicated sales counters that have trained insurance agents. There are typically between two and three insurance agents per branch. Upon purchase, clients are issued with master policies and certificates of confirmation.

Table 5 maps the roles of the various partners across the value chain.

Table 5. Mapping the stakeholder value chain – Malayan-CLIS

Entity >	Malayan	CLIS	Cebuana Pawnshop
Business strategy/ project owner		x	
Product development	x	x	
Agent recruitment			(x)
Agent training		x	x
Product promotion		x	
Sales			x
Policy admin	x	x	
Client servicing		x	x
Claims servicing	x	x	x
Claim payouts	x	x	

### 2.5.3. Current performance

The CLIS model is an example of a mature model that has achieved tremendous scale over the last few years and exhibits some of the characteristics of a successful alternative distribution model. Over 14 million policies have been issued over the past year, with over 4 million unique clients – all across approximately 1,700 stores (Thom et al., 2014; field interviews). The viability of the model has been studied at current scale and operational performance and has been outlined in the ACTA analysis.

## 2.6. HOLLARD-EDCON OVERVIEW

### 2.6.1. Overview of the key partners and their responsibilities

**Hollard Insurance Group.** The Hollard Insurance Group (Hollard), established in 1980, is the largest independent, privately owned insurance group in South Africa and provides both life and short-term (non-life) insurance. Hollard serves as the underwriter within the partnership and is largely responsible for product development, policy administration, client servicing and claims administration.

**Edcon.** Edcon is a leading southern African clothing, textiles and retail holding group. It owns a variety of retail, clothing and textile stores across southern Africa, including in Zimbabwe, Botswana, Lesotho, Swaziland and South Africa.<sup>10</sup> Hollard and Edcon are both largely responsible for the strategy development.

**Jet stores.** Jet is a large discount clothing retailer in southern Africa owned by Edcon, created to serve families within the low- to middle-income market group in South Africa (classified as Living Standard Measures 4–7).<sup>11</sup> Jet is a retail clothing chain with approximately 400 branches across South Africa. The stores offer short- and long-term insurance products exclusively to Jet store credit account holders. Individuals can become account holders by opening an account at any branch of Jet.

**Third-party agency.** This model uses third-party agencies for agent recruitment and training. These agencies are supported by Hollard.

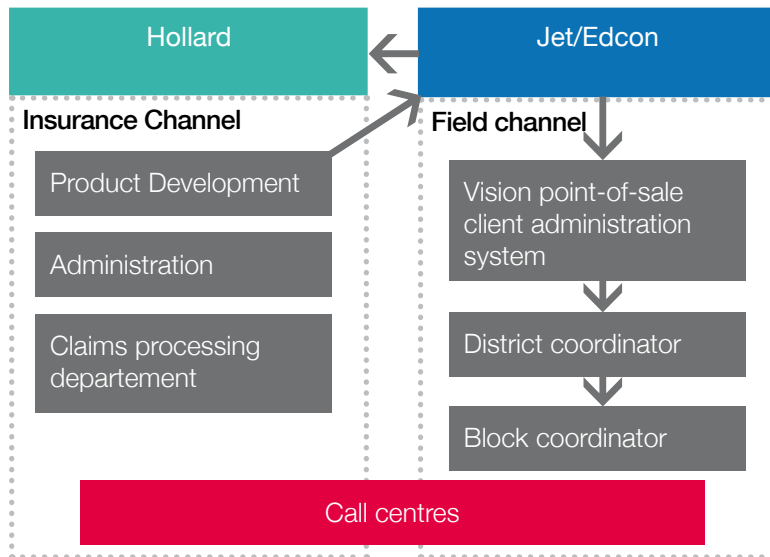
<sup>10</sup> [www.edcon.co.za](http://www.edcon.co.za)

<sup>11</sup> The Living Standard Measure (LSM) is a tool used to segment the South African market according to individuals' living standards. It uses location (urban vs rural), ownership of household assets and access to services to group individuals into one of ten LSMs through calculation of a composite indicator. See <http://www.saarf.co.za/>.

## 2.6.2. Overview of the partnership structure

In 1999, Edcon entered into a joint venture with Hollard and initially only offered credit life insurance to Jet account holders. The credit life product performed well and on the back of that success both Edcon and Hollard decided to extend their product offering and include third-party products such as funeral insurance (Evans, 2014). While the joint venture extends to the entire Edcon group offering a range of insurance products, it is important to note that the focus of our analysis is only on the Jet group of stores and on the Family Funeral Plan.

Figure 5. Overview of Hollard-Edcon operational model



The Family Funeral insurance product is insurance cover offered to Jet stores credit account holders providing cover to account holders and their dependents.

Table 6 shows the roles of the various partners across the value chain.

Table 6. Mapping the stakeholder value chain – Hollard-Edcon

Entity >	Hollard	Edcon/Jet	Agencies
Role	Insurer	Distribution partner	Third-party agency
Business strategy/ project owner		x	
Product development	x	x	
Agent recruitment			(x)
Agent training	x	x	
Product promotion	x	x	
Sales		x	x
Policy admin	x		
Client servicing*	x		x
Claims servicing*	x		
Claim payouts	x		

### 2.6.3. Current performance of the model

The partnership has been successful, leveraging Edcon’s strong brand and track record in financial services and Hollard’s strong experience in the low-income market, and the new third-party agency has helped drive further take-up, generating in the region of US\$10 million per month.

The bulk of the challenges facing this model are related to the fact that that the model largely relies on third-party agents located in-store – as discussed below:

- There is a high agent turnover rate – once agents are trained and qualified it is difficult to retain them.
- The commission incentive derived from the Family Funeral Plan compares unfavourably with the commission derived from the other products distributed through the partnership (legal insurance, dental insurance, etc).
- Agents are not remunerated directly but rather through the agency.
- South African insurance regulations bar untrained and unqualified individuals from selling insurance unless it is a non-advice model where no advice is offered. Therefore, Jet cannot consider using store personnel as sales agents without incurring significant cost and logistical challenges.

### 2.7. SUMMARY OF MODELS

In comparing the models there are a range of differences in terms of the size of the agency force, the outlets and the way the roles are distributed. Table 7 is a snapshot of the partnerships studied.

**Table 7. Snapshot of case studies**

	Bradesco	HDFC	Malayan-CLIS	Hollard-Edcon
<b>Country</b>	Brazil	India	Philippines	South Africa
<b>Model</b>	Captive banking correspondent	Third-party banking correspondent	Captive retail (pawnshops)	Third-party retail (discount stores)
<b>Number of customer points of sale in the network (agents/stores)</b>	43000	40000	1700	1159
<b>Number of outlets for the insurance product currently</b>	600	1060	1700	1159
<b>Number of clients (for this product)</b>	~31680	~850	~4 million unique clients (through ~14 million insurance policies per year)	~250000
<b>Year (launch of model)</b>	2012	2011	2004	2000
<b>Insurer</b>	Bradesco Seguros	HDFC ERGO	Malayan Insurance Co.	Hollard
<b>Distribution partner</b>	Bradesco Expresso	FINO Fintech Foundation	Cebuana Pawnshop	Jet stores
<b>Agency/ broker</b>	BSP Affinity	FINO	CLIS	
<b>Product</b>	Life + accident + disability	Health + personal accident	Accident + disability + fire	Funeral

**2.7.1. Segmentation of models**

The distribution partnerships have been segmented on the basis of two key parameters, as represented in Figure 6:

- The ownership of the channel (agent network). Ownership of the agent network is classified either as “own” or as third party. “Own” agent networks are those that are owned or managed by the insurer or another part of the group (for example, in the case of Bradesco). On the other hand, third-party agent networks are networks that belong to a third-party entity that acts as the distribution channel. The type of ownership affects how fast a product gets to market, the way strategy is agreed and the negotiation of costs between different parts of the value chain.
- The maturity of the model. Partnerships that have been in existence for a limited period are called early-stage pilots, while those that are more established are called mature models.

**Figure 6. Segmentation of the various alternative distribution models**

		Channel ownership	
		Own network	Third-party network
Maturity	Mature	Malayan-CLIS	Hollard-Edcon
	Early-stage pilot	Bradesco	HDFC-FINO

Based on this classification, there are four key segments:

- Mature model with own agent network (Malayan-CLIS). The Malayan-CLIS partnership is mature as it is well established, has been in existence since 2004 and has achieved scale. The partnership model also uses an “internal” agent force owned and managed by CLIS.
- Mature model with third-party agent network (Hollard-Edcon). The Hollard-Edcon partnership is classified as a mature partnership between independent parties, having been in existence since 1999. Furthermore, the partnership uses an external third-party agency to support the sales and distribution of insurance within Jet stores.
- Early-stage pilot with own network (Bradesco). The Bradesco partnership falls within the less mature but own network segment. The partnership has been in existence for a limited period of time (since 2012) and Bradesco uses companies within the same group (Bradesco Seguros) for distribution.
- Early-stage pilot with third-party agent network (HDFC-FINO). The HDFC-FINO partnership falls within the less mature third-party agent network segment, as the partnership has been in existence for a limited period of time and it uses FFF’s business correspondent network, a third-party agency that is external to the insurer (HDFC).

### 3. THE ECONOMICS OF INSURANCE: THE ACTA FRAMEWORK

The report uses the ACTA framework, which has typically been used within the banking sector and has been adapted for microinsurance by the authors of this paper. ACTA analyses the viability of a microinsurance business model across the value chain, with the aim of providing a better understanding of the underlying dynamics. The ACTA framework provides a foundation for understanding how to transform microinsurance business models so they are sustainable for all the stakeholders, as well as scalable. Such an analysis provides insights concerning the factors driving profitability or losses within alternative distribution partnerships.

#### 3.1. OVERVIEW OF THE ACTA FRAMEWORK

Figure 7 below shows an overview of the ACTA framework. The framework breaks down the microinsurance business model across four key components of the microinsurance value chain, namely Actuarial income and expenses (A), Client origination income and expenses (C), Transactions (T) and Adjacencies (A)

Figure 7. Overview of the ACTA framework

(A) Actuarial		(C) Client Origination		(T) Transactions	(A) Agencies
Premium paid	Claims paid + reserves + contingencies	Commission	Sales		
Total premium received	Minus claims, contingencies & reserves % share of premium to actuarial income	Commission paid / received (% paid to agent, aggregator, TSP, administration partner, ect.)	Product development, agent training, marketing & product promotion	Insurance administration platform, health-care platform, front-end technology, client servicing, claims servicing	Investment Income for the insurer, Increase in ARPU for the MNO/bank/ partners in the model (depends on the specific case)
Insurer	Insurer	All partners MNO <sup>1</sup> / BC <sup>2</sup> / Agent aggregator	Insurer MNO <sup>1</sup> / BC <sup>2</sup> / Agent aggregator	Insurer MNO <sup>1</sup> / BC <sup>2</sup> / Agent aggregator	Insurer
Each component of ACTA has been broken down and adapted for the economics of insurance		TSP <sup>3</sup> Administration partner Agent	TSP Agent	TSP Agent	MNO <sup>1</sup> / BC <sup>2</sup> / Agent aggregator

<sup>1</sup> MNO - Mobile network operator,  
<sup>2</sup> BC - Banking correspondent,  
<sup>3</sup> TSP Technical service provider

Each of the four components is relevant to different stakeholders across the value chain; for example, actuarial income and expenses (A) breaks down the microinsurance business model from the insurer's perspective and thus breaks down total revenue received (that is, the premium paid by clients) minus expenses (including commission paid and product development costs). Ultimately, the model aims to show the revenue split between the various stakeholders and partners. Expenses paid are broken down as a percentage of the premium (that is, the revenue received).

The ACTA framework is broken down into different components, which are discussed below:

- **Actuarial income and expenses.** The actuarial component looks at the total premium revenue received (typically on the insurer's books) minus actuarial costs (claims, contingencies, reserves) minus commission payments made by the insurer to other stakeholders and distribution partners in the value chain. This component is most relevant to the insurer.
- **Client origination income and expenses.** The client origination component assesses the economics behind activating the channel and generating new insurance sales. This component also accounts for the payments due to service providers as commission. However, it is important to note that commission may take other forms, such as a share of profits or a one-off fee. This component is relevant to all parties across the value chain.
- **Transactions.** The transaction component takes into account the transaction costs, including all post-sale transaction and platform costs. Examples of applicable transaction costs are costs related to premium processing, collection, policy and claims processing,<sup>12</sup> administration costs, technology and client servicing.
- **Adjacencies.** Adjacencies are activities that are affected by the insurance product either positively or negatively. Examples of adjacencies include increased footfall within retail stores, increased mobile wallet usage or increased average revenue per user (ARPU) in terms of airtime spend. It could be argued that the adjacencies component is one of the key value propositions behind alternative distribution partnerships as it ensures alignment between the partners and enhances persistency and can manage churn.

An analysis of each component allows us to assess the net position –which may either be positive (the business model is viable) or negative (the business model is not viable). Such a conclusion allows us to then prescribe which levers need to be adjusted to make partnership models profitable across the value chain.

Appendix A presents a detailed hypothetical example of an analysis of an alternative distribution partnership business model using the ACTA framework.

### 3.2. ACTA ANALYSIS

In order to develop an understanding of the underlying factors affecting viability within alternative distribution partnerships, the four models have been split into two categories on the basis of the maturity of the business models (as discussed in Section 2.7.1 in the segmentation discussion). Table 8 represents an analysis of the four models using the ACTA framework

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<sup>12</sup> It is important to note that the ACTA framework differentiates between claims and costs pertaining to claims processing. Actual claims paid fall under the actuarial component and costs pertaining to claims processing and administration fall under the transactions component.



**Table 8. Summary of ACTA analysis of the four alternative distribution business models (%)**

% of premium paid		A	C	T	A	Net
- Early-stage - pilots	Bradesco	3	-32	-90	1	-118
	HDFC-FINO	37	-1043	-1440	3	-2443
- Mature - models	Malayan-CLIS	24	25	-9	0	40
	Hollard-Edcon	29.8	-10.2	-8.8	5.9	16.7

**There is a clear relationship between maturity and viability as mature models in positive net position.**

It is clear that building a viable alternative distribution model takes time, as it is only the mature models (Hollard-Edcon and CLIS-Malayan) that have achieved scale and thus a positive net position that indicates viability. As Professor Clayton Christensen says, one should be “impatient for profit, but patient for growth”,<sup>13</sup> so examining early-stage pilots offers value in understanding what the potential for profit could be so that one does not just increase the losses as one grows.

**Even profitable models may harbour some inequity with the value chain.** Whilst a partnership may have reached scale, the ACTA framework allows one to understand whether any of the partners in the value chain may be losing out. For example, the agents in the Hollard-Edcon model appear to be at a disadvantage despite the model being profitable overall. This allows one to design interventions to address this.

**Early-stage pilots experience challenges with viability, as shown by a negative net position.** The fact that early-stage pilots are at a negative net position is indicative of the fact that achieving viability (and possibly scale) requires additional time and close oversight and management of costs. Consequently, maturity is a key factor when considering factors that determine or affect viability; more so with alternative distribution business models where there are multiple stakeholders and processes. Both early-stage pilots have achieved limited scale (HDFC-FINO ~850 and Bradesco ~30,000) in comparison with the mature models (Malayan-CLIS – 4 million clients, and Hollard-Edcon – 250,000 clients).

### 3.3. APPLYING ACTA LEVERS TO ALLOW A FAIR COMPARISON

In seeking to compare the four models on an equal basis, we needed to tweak the early-stage models using certain levers to see what would happen should they reach scale, as shown in Table 9.

For a consistent analysis, the identified levers are linked to the relevant ACTA component, that is, Actuarial, Client Origination, Transactions or Adjacencies. For both the early-stage pilots, Bradesco and HDFC-FINO, the components that were identified as relevant were Actuarial and Client Origination (represented by agent activation and sales conversion).

<sup>13</sup> Christiansen and Raynor (2003).

**Table 9. Adjustment of relevant ACTA components in early-stage pilots using levers**

ACTA component	Lever	Bradesco	HDFC-FINO
<b>Actuarial income and expenses</b>	N/A	Allow for conversion at a higher premium: 84% of all sales are currently at the lowest premium tier for the product (~BRL 10). While the highest product premium is BRL 30, we have pushed conversion to the next premium tier, at BRL 20.	X
<b>Client origination income and expenses</b>	Agent activation	Address the barriers to agent activation: improve agent roll-out by getting all Bradesco multipliers licensed as insurance brokers who in turn will train the agent network. For the model we have estimated that 50% of its agent network is activated for insurance (~26,000 agents).	Increase agent activation: a projected rise in the number of agents from current levels of 1,050 agents to approximately 5,000 agents. However, this comes at a cost and requires additional spend and investment to acquire, train and activate additional agents.
	Sales conversion	Improve sales conversion with each agent: current sales numbers indicate sales of 4.4 policies per agent per month. While this is healthy for a 15-month pilot, we believe conversion rates can be improved to ~20 per agent per month.	Improve sales conversion for each agent: currently sales conversion is evidently very low for the FINO model. To achieve modest scale, we have pushed sales conversion from 0.02 clients per agent per month to 4 clients per agent per month. We recognize this is a significant shift in productivity but it appears manageable should they draw on lessons from other models, such as Hollard-Edcon, who exceed this target considerably.

For both HDFC-FINO and Bradesco as early-stage pilots, actuarial income and expenses, sales conversion and agent activation are key levers that need to be adjusted as they could all be considered as prerequisites to achieving scale and viability. Therefore it is important for both models to adjust the agent activation and sales conversion levers in order to increase scale, achieve viability and convert their negative net position into a positive one.

It is important to note that it is difficult to specify a timeframe concerning the implementation of the levers mentioned in Table 9 above. What is clear is that additional time, effort and investment will be required to apply the necessary levers and subsequently see a potential improvement in viability and scale.

## BOX 2: HEALTH WARNING CONCERNING LEVERS

While applying the levers provides us with an opportunity to understand what the models would be like at scale, like any other operational change, their application comes at a cost. For example, decreasing barriers to agent activation will require further agent training. However, the cost should be able to be recuperated over time as profitability improves (and with it, presumably, scale).

Table 10 shows the effect of pulling the levers on Bradesco and HDFC-FINO. Upon adjustment of the levers, both partnerships have been converted into viable models with a positive net position.

**Table 10. Results from application of ACTA levers (%)**

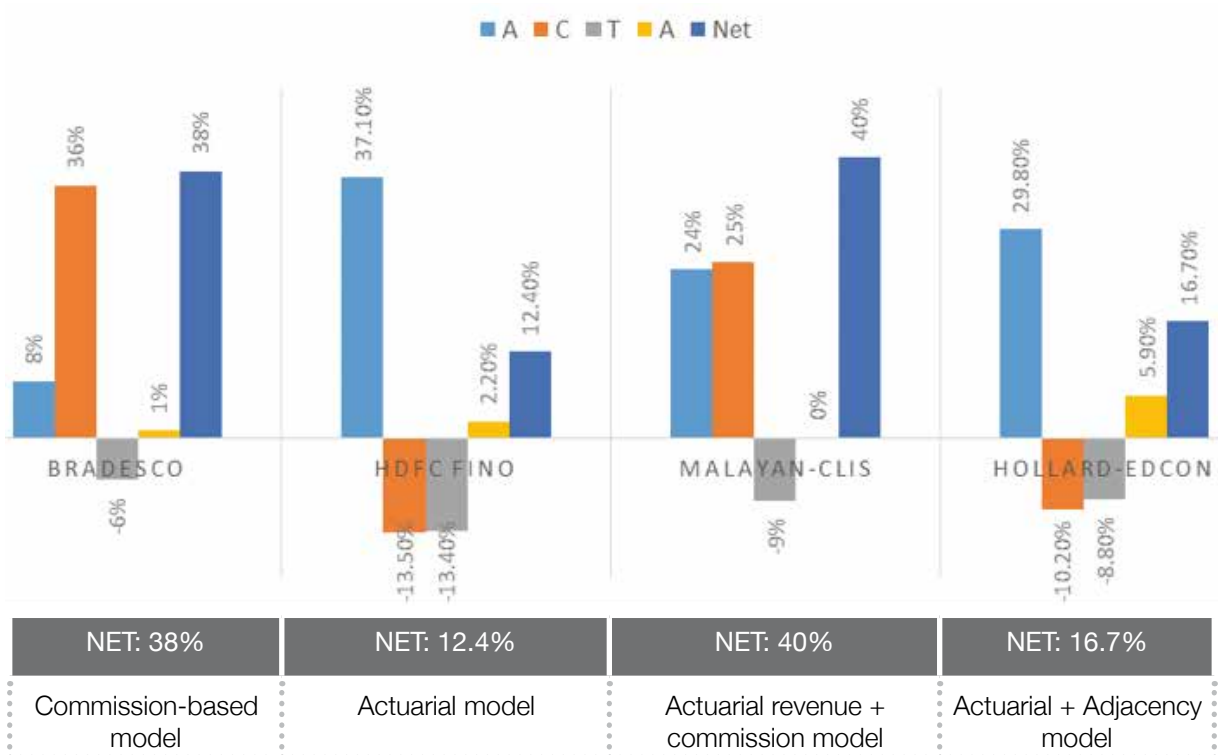
% of premium paid		A	C	T	A	Net
- With levers - applied	<b>Bradesco</b>	8	36	-6	1	38
	<b>HDFC-FINO</b>	37.1	-13.5	-13.4	2.2	12.4
- At current - levels	<b>Malayan-CLIS</b>	24	25	-9	0	40
	<b>Hollard-Edcon</b>	29.8	-10.2	-8.8	5.9	16.7

In assessing the models with the levers adjusted, we see a shift in the ACTA dimensions of the early-stage pilots and find that both models have achieved a net positive position in the ACTA analysis.

### 3.4. BUSINESS MODELS EMERGING FROM THE ACTA ANALYSIS

The ACTA framework not only allows us to deduce which levers can be adjusted in order to achieve viability, it also shows which components drive profitability within a particular alternative distribution partnership business model.

Figure 8 below shows the ACTA components driving profitability across the partnership business models.  
**Figure 8. ACTA dimensions driving the business model**



As shown in Figure 8, profitability within each of the alternative distribution business models is driven by a combination of factors. Consequently we see the emergence of four distinct business models based on the ACTA analysis.

- 1. Commission-based model.** For Bradesco, the primary driver under the client origination component is the focus on distribution, which means that there is greater focus on commission income for partners in the value chain. Bradesco Seguros also uses a number of partners, who all play a key role within client origination and administration. Once the model achieves scale, the commission payments carried by the partners will cover the cost of originating clients as well as transaction costs. This is reinforced by the economics of increased scale, which drive the cost per client down on the technology front (payment platform).
- 2. Actuarial model.** For HDFC-FINO, the model is driven by its actuarial revenue, with the insurer playing the lead role. In addition, the insurer only provides a relatively low commission payment to FINO for its client origination and transaction role. HDFC ERGO keeps most of the revenue received as premium income and therefore the actuarial income component is strengthened. However, while HDFC ERGO benefits from low commission payments, this model does not appear to be viable for FINO in the long term. This is due to the fact that Indian insurance regulations place caps on commission received and FINO currently receives a commission of 15 per cent.<sup>14</sup> This is reinforced by the fact that much of FINO's revenue is passed on to the banking correspondent.
- 3. Actuarial revenue and commission model.** The CLIS model is driven by a balanced combination of actuarial revenue and commission that is split between the insurer and distribution partners, thus providing a balance across the ACTA dimensions. Scale and efficiency drive the actuarial revenue and cover the costs borne by distribution partners. The potential for increased income from adjacencies exists. However, whilst desirable, this is yet to be verified.
- 4. Actuarial and adjacency model.** While Hollard's model is reasonably balanced, it too is primarily driven by actuarial income. It is also the only model to see any significant adjacent income, which is due to the fact that this product is linked to the credit account of the Jet client.

<sup>14</sup> Commission caps for non-life insurance products stand at 15 per cent.

It is important to note that even with the application of levers, the ACTA business model, whether Commission based or Actuarial will remain consistent. This is because the levers do not change or revise the partnership structure, but rather focus on increasing sales and viability.

**3.4.1. Commission-based model: Bradesco**

As discussed in Section 2.2, Bradesco’s model accommodates several stakeholders, each playing a vital role in the distribution value chain. To ensure that the partners remain motivated, Bradesco Seguros pays out a significant percentage of its premium income to service providers.<sup>15</sup> Bradesco Seguros and BSP Affinity are willing (at least in theory, as per the current model dynamics) to accept a lower actuarial net position in order to accommodate the various partners required to provide insurance services efficiently through the Bradesco Espresso channel. In addition, it is also these partners that allow BSP Seguros to play a minimal role in this model while still maintaining a basic actuarial margin, which may be due to the captive nature of the relationship.

It is also important to note that whilst commission payments are split across the different partners, not all partners have equal incentives and some further alignment may be needed. Such misalignment is a more pronounced risk if it is felt at the point in the distribution chain that is closest to the client –primarily the agent. This is an important point given that the focus of non-insurance partners (for example, Bradesco business correspondents and retailers such as Jet) is on their own primary products or activities. At the front line they need to decide whether the revenue or the adjacent benefit is sufficient to motivate them to sell the product. If the agent or the network aggregator or administrator were to perceive the model to be unviable this could lead to a severe reduction in sales, as the agents lose the incentive to push the product. In Bradesco’s case, where such agents are small businesses in their own right, the decision to switch the focus from one service offering to another depends on whether the returns (incentives and commission) can be quick. It is important to note that Bradesco banking correspondents currently incur the cost of any advertising, as we found and relate in Box 3.

**BOX 2: STORY FROM THE FIELD – UNDERSTANDING BRADESCO BANKING CORRESPONDENT AGENT VIABILITY**

During field interviews, an interview was held with a banking correspondent located in a small town close to Recife in Brazil, who had shown considerable initiative to push the sales of the insurance product by paying for an advertising slot on a local radio station and hiring extra staff to sell the product. While this led to a sharp rise in sales, as he sold 50 policies over a weekend, a review of the economics of the margin revealed that the cost of the promotion exceeded the commission received and, as expected, he discontinued his promotional efforts to cut his losses.

**3.4.2. Actuarial model: HDFC-FINO**

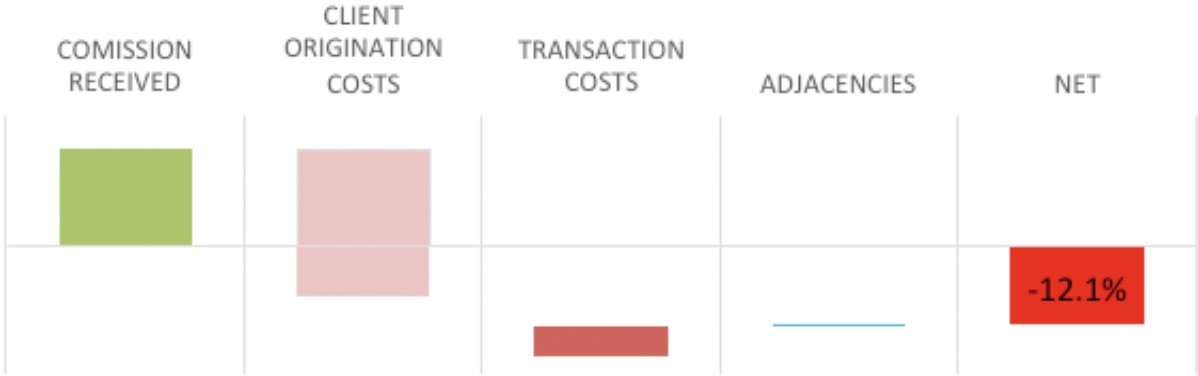
At first glance, the HDFC-FINO partnership business model proves to be viable overall at scale. However, upon closer observation of the incentives offered to different parts of the value chain, it is clear there are misalignments within this model. As we can see in Figure 9, the model is driven by the actuarial income earned by HDFC ERGO. Profitability within the model is a consequence of actuarial income (premium paid) exceeding actuarial costs (commission paid, claims, contingencies and reserves). The low commission payout (due to commission caps) within this model has resulted in a high actuarial margin for the insurer/underwriter, HDFC ERGO. This is a function of Indian insurance regulations, which place commission caps on insurance products.

<sup>15</sup> It is important to note that for simplicity, payments made to all service providers have been bundled under commission payments – but these payouts can take various forms. For instance, payments to Orizon are made on a fixed-fee basis.

While the model appears profitable for HDFC ERGO as the underwriter, other stakeholders are disadvantaged by the low commission payment. While both FINO and HDFC ERGO play active operational roles, the former bears the brunt of operational costs, which are not covered by the commission received, as shown in Figure 9 which shows that high client origination and transaction costs impact on FINO’s viability.

This misalignment of incentives may be one of the reasons why this model has failed to achieve scale. FINO may not have the incentive to sell the product, because of the low commission received, and thus the model may struggle to achieve scale. We also heard during field interviews that sales were typically linked to where FINO had been distributing social grants, which was not in the location of the pilot.

**Figure 9. FINO’s viability potentially challenged**



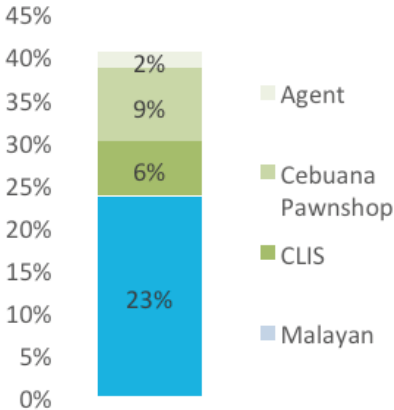
An additional factor to consider is the product sold – health insurance is often a complicated product to sell, which often results in high loss ratios for insurers. This model may require both stakeholders (HDFC ERGO and FINO) to re-evaluate the business model, in order to motivate the agent network to increase sales, so that greater scale can be achieved and ultimately viability can be improved.

**3.4.3. Actuarial revenue and commission model: Malayan-CLIS**

Malayan-CLIS is a mature model that has achieved considerable scale and also exhibits a balance between two ACTA profitability business models – actuarial income for the insurer (Malayan) and commission income for the distribution partners (CLIS).

Two key factors influencing the overall viability and profitability of the model are maturity and scale achieved. Over the years, the Malayan-CLIS distribution partnership business model has evolved and invested in additional staff training and product adaptations to meet client needs and improve the value proposition of the Alagang Cebuana product. In addition, the cost of these product adaptations and investment in staff training has been spread across a large client base.

**Figure 10. Income split between partners in the Malayan-CLIS model**



While no realignment of incentive is required, as the model has an overall net positive position, it is still important to breakdown the net position by stakeholder to understand how the model is aligned, as shown in Figure 10. As it demonstrates, 23 per cent of the model's net position is on Malayan's books (actuarial income), of which 17 per cent is passed on as commission payments to distribution partners. Malayan's favourable actuarial income position is primarily driven by the high share of premium it receives in comparison with other stakeholders in the value chain. The commission payouts cover the considerable operational costs for both CLIS and Cebuana Pawnshops.

As discussed in Section 2.4, CLIS plays a key role in creating promotional content and providing support to Cebuana Pawnshop with client origination. CLIS also plays a major role in policy and claims administration, which benefits Malayan by reducing operational overheads significantly. The pawnshop network too has key roles in client origination and claims handling. At current scale, these costs seem to be covered by the model, and both CLIS and Cebuana Pawnshop operate at a reasonable net positive position.

#### **3.4.4. Actuarial and adjacency model: Hollard-Edcon**

Actuarial income is a key profitability driver for Hollard-Edcon despite the relatively high claims ratio (estimated at 60 per cent on the basis of interviews and field research) for the Jet-Hollard Family Funeral Plan. The actuarial net position is relatively strong, owing to the absence of fixed and regular commission payments to partners, as Hollard and Edcon have formed a joint venture. This joint venture also incorporates a profit share agreement, which replaces commission paid to the individual partners. In addition, the agreement stipulates that Edcon pay the third-party agent administrator commission out of Edcon's share of revenue.

While the model is viable, there are a number of alignment challenges. Hollard and Edcon keep a significant percentage of the premium payments in comparison with agents and the third-party agent managers. As shown in Section 1, the Jet-Hollard Family Funeral Plan product has a recurring monthly premium that is auto-debited from clients' Jet credit accounts. And although the premium payments are recurring, the incentive payment for the agent and the third-party agent administrator on a new policy is a one-off commission payment. Therefore over time, the third-party agent manager's (and ultimately the agent's) commission is a low percentage of premium. Moreover, this misalignment (fixed agent commission) is reflected in the high agent turnover at Jet stores (reportedly up to 30 per cent of agents per month), which poses a risk to the model. Another interesting aspect of the model is the adjacency created by restricting insurance sales to Jet account holders, thus:

- a. incentivizing clients to become account holders to obtain insurance (Hollard-Edcon also launched a cash-based premium payment model which failed to take off due to low persistency rates and high churn); and
- b. ensuring that clients regularly pay off their Jet accounts so that their premium payments can be made through the account (by auto debit).

All of the above lead to direct adjacencies for Jet as a result of this microinsurance product.

As has been shown in the different models, it is clear that the interests of the different parties are effectively balanced. If there is a skew in the incentives for one of the players, it may threaten sustainability and the viability of the initiative.

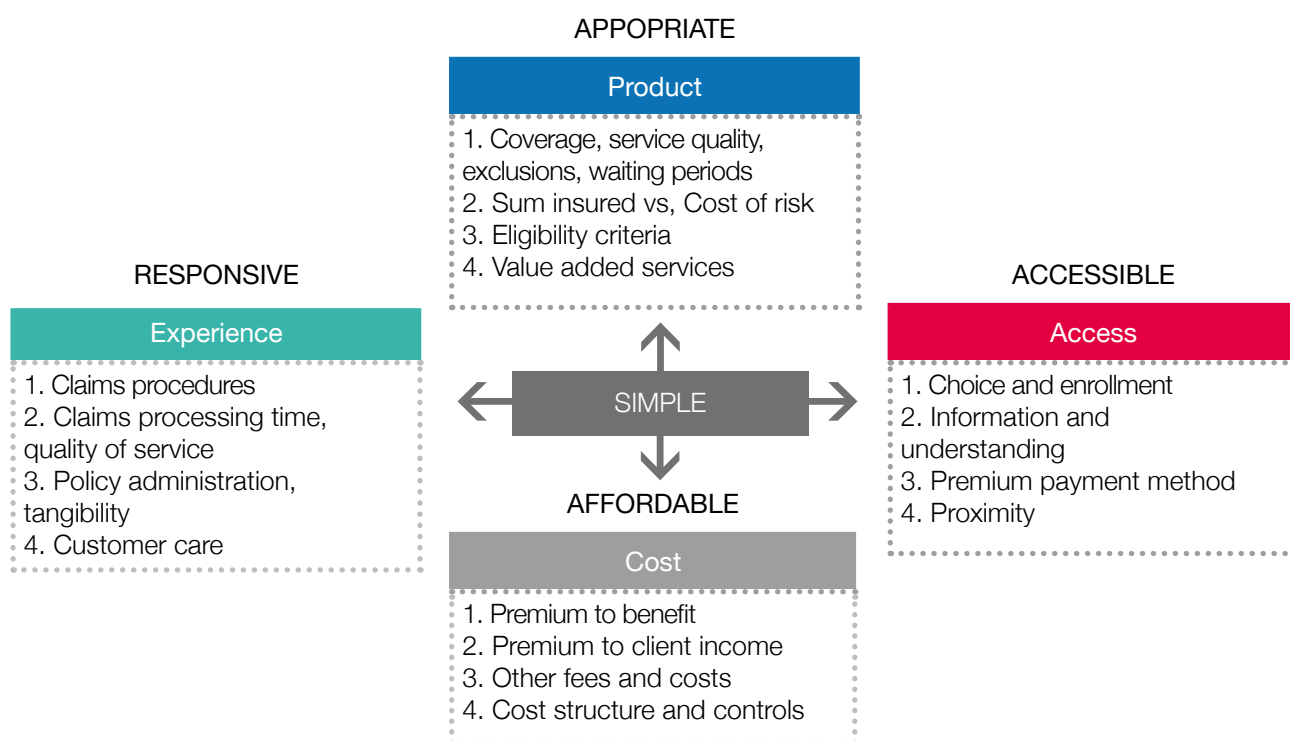
## 4. PACE ANALYSIS

In this section we discuss the results from the PACE analysis of the selected products from the partnerships studied.

The PACE client value assessment tool was developed by the ILO's Impact Insurance Facility to "assess the client value of microinsurance products in relation to alternatives providing protection for similar risks" (Matul and Kelly, 2012). The tool assesses, and also provides a better understanding of, the client value proposition of any given microinsurance product compared to identified alternatives. In addition, the PACE tool assesses client value across four dimensions, namely Product (P), Access (A), Cost (C) and Experience (E).

Figure 11 shows a detailed breakdown of the four PACE dimensions.

**Figure 11. Overview of PACE framework**



**Product.** This dimension assesses product appropriateness by reviewing coverage, benefit level, eligibility criteria and availability of value-added services.

**Access.** This dimension focuses on accessibility and simplicity by reviewing choice, enrolment, information, education, premium payment method and proximity.

**Cost.** This dimension measures both affordability and value for money, while looking at measures that reduce the cost of delivering the product to the client.

**Experience.** This dimension assesses client responsiveness and simplicity by looking at claims procedures and processing time, policy administration, product tangibility and customer care.

(Matul and Kelly, 2012).



As shown in Figure 12, PACE is used as a comparative tool to assess the relative client value proposition of a product against alternatives, including similar products, informal risk-pooling mechanisms and social security (as per the relevant market conditions). The PACE tool focuses on improving client value rather than proving it and thus focuses primarily on the first stage of value creation, when products are developed or refined (Matul and Kelly, 2012).

Assessing the client value proposition of the products provided by the alternative distribution partnerships studied in this paper allows us to identify product strengths and weaknesses (from the client's perspective) and the improvements required to improve the client value proposition. The PACE analysis requires that products are scored out of 5 across the various dimensions. Scoring is relative to the client value proposition of the selected product in relation to alternatives.

#### BOX 4: PACE METHODOLOGY USED FOR STUDY

For the purposes of this study, we followed the PACE guidelines and compared products to the alternatives that were available in the respective local markets. For instance:

- **Hollard-Edcon.** We compared the Jet Hollard Family Funeral Plan with a number of alternatives, including other funeral insurance products distributed through retailers (such as the Pep Hollard funeral cover and Old Mutual's Pay When You Can), as well as informal funeral insurance cover, often in the form of burial societies.
- **Malayan-CLIS.** The Alagang Cebuana Plus product was compared with products covering similar risks (personal accident, disability, and so on) and also distributed through pawnshops, for example, ML Pinoy Protect and Tambunting Accident Protection.
- **HDFC-FINO.** The Hospital Cash and Personal Accident product was compared with similar insurance products offered by HDFC ERGO. The ILO's Impact Insurance Facility took responsibility for the collection of the data.
- **Bradesco.** The Espresso Premiável product was compared with informal risk coping mechanisms, Bradesco Primeira Proteção and average levels of cover within the market and from financial institutions. The ILO's Impact Insurance Facility took responsibility for the collection of the data.

Following this comparison with local alternatives, the PACE analyses was then rescored to compare the four alternative distribution partnership products to each other.

Figure 12 presents a graphical representation of the PACE analysis and scores in Table 1 below.

**Table 1. Summary of PACE scores**

	P	A	C	E
<b>Bradesco:</b> Espresso Premiável	3.0	3.1	4.1	2.0
<b>HDFC-FINO:</b> Hospital Cash and Personal Accident Plan	3.5	3.5	3.5	1.5
<b>Malayan-CLIS:</b> Alagang Cebuana Plus	4.1	4.1	3.5	4.5
<b>Hollard-Edcon:</b> Jet-Hollard Family Funeral Plan	3.9	3.0	3.8	2.5

Figure 12. PACE analysis and scores



In the following sub-sections we discuss the analysis of the selected products across the four dimensions.

#### 4.1. PRODUCT

In this section we discuss the analysis of the selected products under the Product dimension:

- Bradesco. Bradesco’s Espresso Premiável product – an accidental death and funeral insurance policy with an annual term.
- HDFC-FINO. Hospital Cash and Personal Accident Plan with an annual term.
- Malayan-CLIS. The Alagang Cebuana Plus – an accidental death and fire insurance product with a 4-month term.
- Hollard-Edcon. The Jet-Hollard Family Funeral Plan offers Jet account holders funeral cover for themselves and family members. The product has a monthly term.

##### 4.1.1. Bradesco’s Espresso Premiável

3.0

The Espresso Premiável product provides both accidental death and funeral cover to clients. The sum assured is adequate to cover the cost of the risk faced and is quite generous in comparison with alternatives on the market. However, many of the exclusions are identical to those of traditional products, which may confuse or frustrate low-income clients. For instance, client booklets containing product information and policy details use many complicated technical terms and go into a fair bit of detail.

##### 4.1.2. HDFC-FINO’s Hospital Cash and Personal Accident product

3.5

Unlike other health insurance products on the market, this hospital cash plan product has a sum assured that sufficiently covers the health risks faced. Even the lowest-tier product provides adequate coverage for hospitalization costs. The highest-tier product offers “dial a doctor”, a tele-medicine value-added service. In addition, the hospital cash plan product has only a small number of exclusions with limited restrictions concerning pre-existing conditions.

#### 4.1.3. Malayan-CLIS's Alagang Cebuana Plus

4.1

The Alagang Cebuana Plus unique product structure of accidental cover combined with fire insurance is tailored to meet market needs. Initially, the product was accident cover, until a market study recorded client requests for fire cover as an additional component. The product is offered on a 4-month term that it is aligned with the typical pawning cycle of 4 months. The fire cover of approximately US\$100 is more akin to cash assistance.

#### 4.1.4. Jet-Hollard Family Funeral Plan

3.9

The Family Funeral product extends cover to the entire family of the insured (partner, spouse and children), which is a requirement in South Africa. The highest level of cover is approximately US\$5,000 and is in line with the typical cost of the risk. In comparison with other alternatives, the product offers simple funeral cover without any prohibitive exclusions. The product provides a limited waiting period of between 6 to 12 months.

The product does not offer any value-added services or non-insurance benefits. An additional factor that detracts from the client value proposition of the product is the fact that the maximum age is limited to 64; this should be extended to compare more favourably with alternative funeral cover and coping mechanisms.

### 4.2. ACCESS

#### 4.2.1. Bradesco's Expresso Premiável

3.1

Expresso Premiável's simplicity and Bradesco's effective client communication are factors that prove the client value proposition of the product. In addition, product enrolment is quick, simple and digital. Furthermore, during field visits, Bradesco banking correspondents always had all materials on hand, including brochures and enrolment forms.

To avoid mis-selling and information asymmetry, it is important for clients to have sufficient information. Expresso Premiável clients have limited access to product information, with the product being sold as a sweepstake. Although this increases sales, it also raises concerns about consumer protection.

An additional concern is the lack of active insurance agents, as only 1.3 per cent of business correspondents (only 600 out of 43,000 business correspondents) are qualified to sell insurance. However, it is important to consider that this is an early-stage pilot and it is not necessarily the number of business correspondents that have been activated that matters but rather how they reach their clients.

#### 4.2.2. HDFC-FINO's Hospital Cash and Personal Accident product

3.5

The product enrolment process is simple and clients have the option either to pay cash or to transfer the premium from a linked bank account, although the latter option is rarely used. Although insurance certificates are issued manually and immediately, client details are sometimes captured incorrectly.

Clients are not required to travel significant distances, as FINO CSPs (agents) visit clients in their villages each week. FINO CSPs are usually mobile agents who market the product verbally during scheduled weekly meetings with clients. This is appropriate for the low-income market, where literacy levels are often low. The limited product take-up suggests a flaw in the sales process and indicates that the value proposition of the product is not being properly communicated by these agents. This might be because there are not enough specialized agents with sufficient knowledge of the product.

Clients have two points of sale and recourse – by contacting HDFC ERGO directly or by contacting the insurance agent who sold them the product. Clients normally contact the agent from whom they bought their policy.

#### 4.2.3. Malayan-CLIS's Alagang Cebuana Plus

4.1

The Alagang Cebuana Plus product is offered through the wide network of Cebuana Pawnshops in the Philippines. There is limited non-verbal marketing (flyers and posters); however, in-store agents have been trained to communicate product information verbally in a sales pitch. In addition in-store agents are trained to respond to queries from actual or potential clients.

In previous years, insurance certificates were issued to clients manually. However, this was often a time-consuming process, especially when clients had purchased multiple certificates, as clients are permitted to purchase up to five certificates. The enrolment process has since been revised and digitized, with clients receiving electronic certificates. In addition, product terms and conditions have been simplified. Clients are now given a condensed one-page version of the insurance policy with their certificate.

An area of concern is the 4-month coverage period, which may be too short. If they want to renew their policy, clients are required to visit a Cebuana Pawnshop branch, meaning that they may have to do this every 4 months. While there is a wide distribution network and renewal is aligned to the pawning cycle, this renewal process may be burdensome.

#### 4.2.4. Jet-Hollard Family Funeral Plan

3.0

Jet has a wide network of stores across South Africa, which is easily accessible to clients. However, clients do not need to go to a store to make premium payments, as the premium is deducted from their credit accounts.

Clients only receive product terms and conditions 7 days after enrolment, when their policy documentation arrives. In addition, should the account be in arrears, Jet will not forward the premium to Hollard, thus leaving the client without cover as there are no grace periods allowed.

The product is limited to Jet credit account holders and this restricts access by the insurer to potential clients.

### 4.3. COST

The client value proposition across the cost dimension is comparable despite the inherent differences in premium costs, coverage value and cost structures between the four products being assessed.

- Bradesco's Expresso Premiável has an average premium cost of US\$4.60, average cover of US\$2,200 and a 1-year term.
- HDFC-FINO's Hospital Cash and Personal Accident policy has a one-time average premium cost of US\$5.20, average cover of US\$1,600 and a 1-year term.
- Malayan-CLIS's Alagang Cebuana Plus product has a one-time average premium cost of US\$0.62, average cover of US\$ 530 and a 4-month term.
- The Jet-Hollard Family Funeral product has a recurring average premium cost of US\$4.40 per month, average cover of US\$ \$1,285 and covers the entire family.

#### 4.3.1. Bradesco's Expresso Premiável

4.1

Expresso Premiável is an affordable product and offers significant value in comparison with alternatives (cover ~US\$ 2,200) for a comparatively low one-time premium (US\$ 0.38).

Sophisticated technology and processes mean higher provider costs upfront until scale effects kick in. Key costs are spread across the value chain, which further enhances the overall cost-efficiency of the model.

### 4.3.2. HDFC-FINO's Hospital Cash and Personal Accident product

3.0

On the face of it, this product offers good value to clients at an affordable one-time premium of ~US\$ 5.20 and a benefit level that will cover hospitalization costs up to a limit. The client has to pay an out-of-pocket deductible fee (co-payment) of a 1-day hospitalization charge reimbursable (depending on the level of coverage chosen). This may also cause some confusion with clients. Also, the fact that the agents travel to the client's village eliminates any potential travel costs for the client.

However, processes are not very sophisticated and the use of manual certificates will lead to higher operating costs as the model scales.

### 4.3.3. Malayan-CLIS Alagang Cebuana Plus

3.5

Cebuana Plus has the lowest one-time premium of the four products and thus the lowest adoption-cost barrier. This makes the product very affordable, which is reflected in high sales.

The product term is 4 months which requires the client to renew it every 4 months before the end of the term. Furthermore, the product's affordability is reinforced by the fact that the equivalent yearly premium of US\$1.80 is still relatively low and approximately 1 per cent of the average monthly income of the target market.

The product offers an average level of cover of US\$ 530 on a 4-month term (possibly being US\$1,500 on an annual term). It certainly provides value for money, given the fact that the premium is significantly lower than the alternatives (ML Pinoy Protect with a premium of approximately US\$ 10 and Tambunting Accident Protection with a premium of approximately US\$ 2.70).

### 4.3.4. Jet-Hollard Family Funeral Plan

3.8

The Hollard policy offers lower value in terms of coverage (US\$1,285) at a higher premium cost (recurring monthly premium of US\$4.4) compared to the other four products. However, it is important to note that the whole family is covered under this product, as opposed to individual clients under the other products. Also, such a funeral product will have a different actuarial risk weighting and may need to be priced to account for this additional risk. Nonetheless, the product, while priced comparably to alternative products in the local market, is an expensive proposition compared to the others discussed in this paper.

## 4.4. EXPERIENCE

### 4.4.1. Bradesco's Expresso Premiável

2.0

The sales and enrolment process at banking correspondent outlets is typically quick and efficient. However, banking correspondents have limited capacity to service clients and they do not process claims or provide information about the claims process. Claims processes are complex, owing to compliance with regulations. This means that the claims processes are aligned with those of conventional insurance and are not tailored to meet the needs of the low-income market. Ultimately clients have limited information about the claims process and consequently the product has a low claims ratio (another indicator of client value), with only one claim filed for every 1,000 policies sold (EA Consultants, 2014). This means that this product is not creating any tangibility or experience for clients.

Improving access to information about claims procedures could improve the client value proposition of the product and overtime bring about an increase in the claims ratio.

#### 4.4.2. HDFC-FINO's Hospital Cash and Personal Accident product

1.5

HDFC ERGO provides clients with a toll-free number. Local FINO CSP agents are also available to provide assistance to clients but have limited insurance knowledge and expertise.

Claims are submitted to local FINO CSP agents. However, claims processing and settlement are lengthy and it usually takes 45 days for clients to receive reimbursement. This is a very long waiting period for clients who are tackling serious medical conditions. There is currently no cashless claiming option under the model.

As noted above, clients have two points of sale and recourse: either by contacting HDFC ERGO directly or through the insurance agent who sold them the product. Clients normally contact the agent from whom they bought their policy.

#### 4.4.3. Malayan-CLIS's Alagang Cebuana Plus

4.5

All claims under US\$ 625 (around 60 per cent of all claims) are processed in under 24 hours. In addition, where claims are rejected an ex-gratia payment of US\$40 per beneficiary is available to clients.

There are a variety of customer feedback mechanisms in place, including in-store at Cebuana Pawnshops and the CLIS customer care hotline. Feedback is processed and analysed every week and client issues are addressed promptly. Minimal documentation is required when claiming and claims are submitted by clients at the local Cebuana Pawnshop branches, where both agents and branch staff can assist clients with specific queries and concerns.

#### 4.4.4. Jet-Hollard Family Funeral Plan

2.5

While the claims process is simple and straightforward, clients are unable to claim in-store and must do so directly with Hollard. Claims are typically processed within 48 hours of Hollard receiving all the necessary documentation. However, documentation requirements may be onerous, especially when claiming for unnatural death, as clients are also required to submit a police report, which may be difficult to obtain timeously. The client must call the insurer (Hollard) to report issues and raise concerns. They cannot do this at the point of sale within Jet stores or with the financial service agents in-store.

### 4.5. UNDERSTANDING THE CLIENT VALUE PROPOSITION OF ALTERNATIVE DISTRIBUTION

In this section we summarize and collate the findings from the PACE analysis of the four products distributed through the banking and retail correspondents.

There are a number of key insights that can be gleaned from the PACE analysis of the products distributed via these alternative distribution partnerships. Our analysis is guided by the segmentation of the partnerships, as discussed in Section 2.7.1, which differentiates between early-stage pilots and mature products.

Mature products have the advantage of time to improve product appropriateness and experience.

- **Product.** The mature products, namely Alagang Cebuana Plus and the Jet-Hollard Family Funeral Plan, scored better under the product dimension (product appropriateness, etc.). This is because mature partnerships have had the opportunity to change or adjust their product offering according to market research and other client feedback. This reinforces the point that building a product's client value proposition takes time as partners are required to adapt their product offering to the market's needs.
- **Experience.** In addition, the mature products also scored better under the experience dimension. This is also linked to the fact that mature models have had the time to adapt their procedures, including claims administration and consumer recourse, to client needs.

Early-stage pilot products may not have scored as highly under the product and experience dimensions, largely because they have been on the market for a fairly short period of time. Client feedback has yet to be absorbed, and products and procedures take time to be adapted.

Early-stage pilots (with strong agency network) provide better access and offer greater affordability.

- Access. The early-stage pilots (Bradesco and HDFC-FINO) scored better than the mature products under the access dimension, potentially because both of them benefit from extensive distribution networks; for example, Bradesco Seguros uses the Bradesco Espresso business correspondent network while HDFC-FINO uses FFF’s business correspondence network.
- Cost. Both the early-stage pilots fared better under the cost dimension. However, this was largely due to affordability and value for money. Both products had high operational costs for different reasons: Bradesco because of highly sophisticated back-end processes; HDFC-FINO because client certificates were issued manually.

There were no clear observations concerning the segmentation of partnerships according to agency ownership as it was difficult to draw conclusions on an analysis of own agency networks versus third-party agency networks.

Table 11 pulls out the key lessons that can be drawn from the product that had the highest PACE assessment score across all four dimensions: Alagang Cebuana Plus. It is important to note that this product has been on the market for 10 years, as it was launched in 2004. The analysis also summarizes key recommendations concerning the distribution of products via alternative distribution channels.

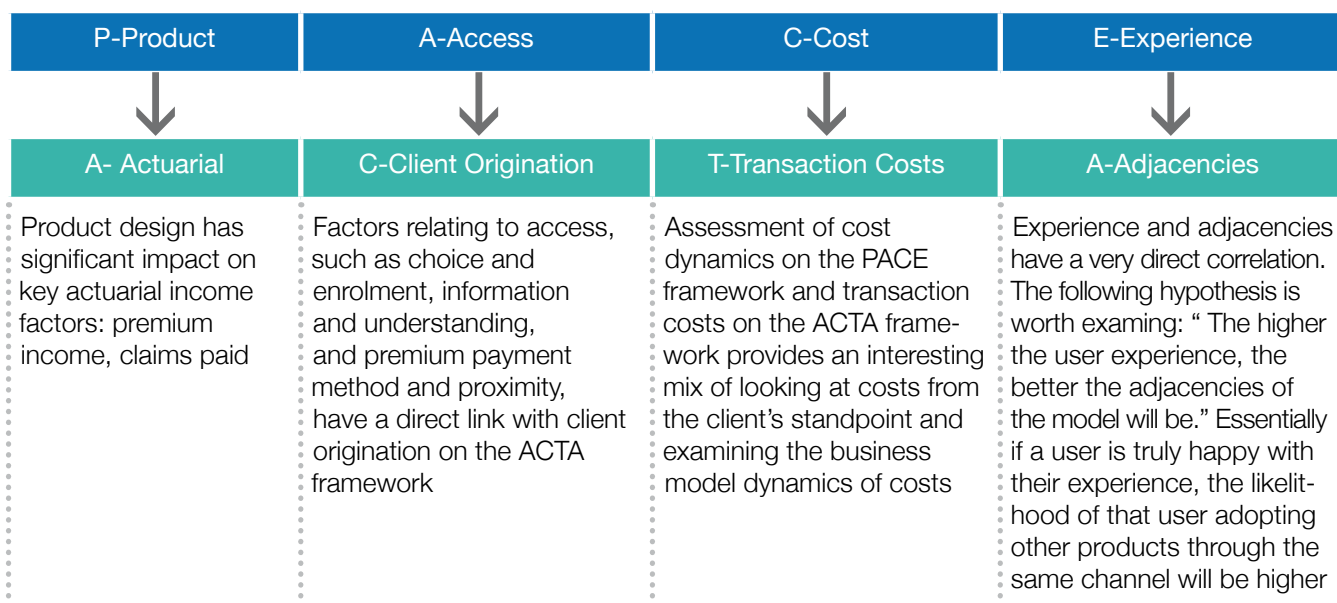
**Table 11. Key lessons drawn from the Alagang Cebuana Plus client value proposition**

PACE dimension	Lessons from Alagang Cebuana Plus	Key lessons and considerations
<b>Product</b>	Cebuana Pawnshop clients interact with the store on a 4-month basis and thus the premium term has been structured accordingly.	Product should be structured according to the profile of the target market and the distribution channel’s client base. Pricing the product over 4 months rather than 1 year may also make the product appear more affordable and accessible.
	CLIS added a fire component at the request of clients.	Product should be designed in a manner that meets the needs and risk profile of the target market.
<b>Access</b>	Clients have access to different sources of information, including in-store agents and marketing materials.	Clients should have access to information at the distribution channel and point of sale.
	Simple one-page insurance policy on the back of insurance certificate.	Clients require access to simplified product terms and conditions.
	Cebuana Pawnshop distribution network makes product accessible.	Wide distribution network necessary to ensure access for clients (and also allows insurer to achieve scale).
<b>Cost</b>	Affordable premium - monthly premium equates to 1 per cent of target market monthly income.	Ensure premium is affordable for your target market.
<b>Experience</b>	Client sign-up process electronic and digitized - clients receive electronic certificates.	Integrate claims processes with distribution channel.
	Clients can claim in-store, with claims under US\$625 being processed in under 24 hours.	Ensure that clients have alternative claims process at convenient locations without having to visit Cebuana Pawnshop branches. Also consider improving and quickening claims processes within the distribution channel.

#### 4.6. Understanding the relationship between client value and viability

This study has sought to understand the drivers of profitability within alternative distribution partnerships as well as the client value proposition of products distributed under such models. As shown in Figure 13, our assumption is that ACTA and PACE are complementary models that will inform each other. A focus on profitability may impact client value. For instance, an ACTA analysis of profitability may indicate that increased waiting periods would increase profits. PACE may require changes to the product that may increase costs to part of the value chain. However, in the long run, they will work together, as sustainable scale requires real and perceived client value. Figure 13 shows the primary relationship between the PACE and ACTA models –the link between client value and viability. There are other (secondary) linkages across other areas but these are the main relationships observed.

**Figure 13. Understanding the primary relationship between client value and viability**



In understanding how ACTA and PACE work together, Table 12 below provides a summary of the analysis of the four models.

**Table 12. Summary of analysis of four alternative distribution partnership business models**

	Bradesco	HDFC-FINO	Malayan-CLIS	Hollard-Edcon
<b>Model segmentation</b>	Captive	Third party <sup>1</sup>	Captive	Aligned third-party captive
<b>Model category</b>	Early-stage pilot	Early-stage pilot	Mature	Mature
<b>ACTA model</b>	Commission-based	Actuarial	Actuarial revenue and commission-based	Actuarial and adjacency
<b>ACTA net position</b>	Negative After levers: Positive	Negative After levers: Positive overall (negative for FINO)	Positive	Positive
<b>PACE (highest dimension score)</b>	Cost	Product	Experience	Product
<b>Scale achieved</b>	Limited	Limited	High	High

<sup>1</sup> The HDFC-FINO partnership is defined as third party because FINO is distributing the product on behalf of HDFC.



	Bradesco	HDFC-FINO	Malayan-CLIS	Hollard-Edcon
<b>Challenges (ACTA)</b>	<ul style="list-style-type: none"> <li>• Agent activation</li> <li>• Sales conversion</li> <li>• Low commission</li> </ul>	<ul style="list-style-type: none"> <li>• Agent activation</li> <li>• Sales conversion</li> <li>• Low commission</li> </ul>	Captive	<ul style="list-style-type: none"> <li>• Low commission (fixed)</li> </ul>
<b>Challenges (PACE)</b>	<ul style="list-style-type: none"> <li>• Limited access to terms and conditions</li> <li>• Low take-up</li> <li>• Product sold as sweepstake and not insurance</li> <li>• Costly sophisticated processes and system</li> <li>• Annual policy – not renewed</li> </ul>	<ul style="list-style-type: none"> <li>• FINO agents have limited knowledge</li> <li>• Low take-up</li> <li>• 45 days claims processing time</li> </ul>	<ul style="list-style-type: none"> <li>• Clients must return to store to renew policy</li> <li>• Fire cover component does not provide adequate cover</li> <li>• Product term of 4 months too short and may discourage renewals</li> </ul>	<ul style="list-style-type: none"> <li>• Clients unable to claim in-store and must do so with insurer</li> <li>• Only Jet account holders permitted to sign up</li> <li>• Clients obtain full policy wording 7 days after sign-up</li> </ul>
<b>Addressing challenges with PACE</b>	<ul style="list-style-type: none"> <li>• Ensure clients understand product is insurance cover and not sweepstake</li> <li>• Improve access to terms and conditions</li> <li>• Consider reviewing processes to reduce cost of platform</li> <li>• Improve renewal process</li> </ul>	<ul style="list-style-type: none"> <li>• Additional agent training</li> <li>• Consider introducing electronic or digitized processes to improve client data capturing and claims processing</li> </ul>	<ul style="list-style-type: none"> <li>• Consider improving level of fire cover to ensure it adequately covers risk</li> <li>• Consider extending product term to annual term</li> </ul>	<ul style="list-style-type: none"> <li>• Consider introducing in-store claims processing</li> </ul>
<b>Addressing challenges with ACTA</b>	<ul style="list-style-type: none"> <li>• Remove barriers to agent activation through agent training</li> <li>• Reduce barriers to sales conversion</li> <li>• Possibly revise current commission structure to ensure agents appropriately incentivized</li> </ul>	<ul style="list-style-type: none"> <li>• Remove barriers to agent activation through training</li> <li>• Reduce barriers to sales conversion</li> </ul>	<ul style="list-style-type: none"> <li>• Increase adjacencies for partners, i.e. increased footfall, etc., for Cebuana Pawnshops and other revenue related to distributing the product</li> </ul>	<ul style="list-style-type: none"> <li>• High agent turnover – suggests reassess agent commissions</li> </ul>
<b>Trade-offs required</b>	<ul style="list-style-type: none"> <li>• Up-front investment in training and licensing of brokers</li> <li>• Up-front investment in licensing agents</li> <li>• Increasing agent commission and marketing spend will impact the business case</li> </ul>	<ul style="list-style-type: none"> <li>• Improve business case for FINO in agent activation, marketing and sales</li> </ul>		<ul style="list-style-type: none"> <li>• Automation of policy information sharing between Hollard and Jet will improve efficiency and may bring down administration costs at both ends</li> <li>• Increased agent compensation may reduce turnover and could be linked to an increased role in claims facilitation at stores</li> </ul>

## 5. CONCLUSION

In considering the four retail and banking correspondents in this study, we have examined the financial and client value drivers behind their operations, with the aim of seeing what the interconnections are and what can effectively drive scale. It is clear that these models are complex, and face a range of trade-offs. The levers discussed in Section 3.3 also identified some of the key challenges affecting the viability of these retail and banking correspondents:

- **Agent activation.** Activating the agency network is one of the key foundations of the success of any alternative distribution partnership in microinsurance. Unless one can cost-effectively and efficiently activate one's agency force in a way that ensures good-quality and high-volume sales, it will be impossible to reach and sustain scale.
- **Sales conversion.** Ensuring a good sales conversion (converting leads to sales) is critically important in managing costs and driving scale. Ensuring a positive sales conversion ratio keeps the retail and business correspondents interested and engaged. This requires effective training, marketing and client education.
- **Incentive alignment.** One of the major challenges facing alternative distribution partnership models is incentive alignment along the value chain. For example, in the case of the HDFC-FINO partnership, commission caps detract from viability for FINO. Incentives from selling insurance may also not be well aligned for Bradesco banking correspondents in comparison with other primary products being sold. Other incentives for partners may be required, from licence fees, brand fees or profit sharing to funding more operating costs – depending, of course, on local regulations.

While there are a number of barriers and challenges facing these models, it is important to consider the success factors. Box 5 highlights a few of these factors.

### **BOX 5: SUCCESS FACTORS BEHIND ALTERNATIVE DISTRIBUTION PARTNERSHIPS**

Agent networks play a key role in extending the reach of insurance. They also improve the client value proposition by serving as a tangible access point for clients.

Providing adequate incentives to all parts of the value chain ensures a harmonious and sustainable partnership. Captive/own network models can allow for cross-subsidization if there is strategic value for the group.

Retail and banking correspondents provide efficient and convenient premium payment mechanisms (thus improving client value). For example, the Alagang Cebuana Plus product structures sales around the pawing cycle of 4 months. Jet-Hollard's client store account collection drives persistency.

Efficient and convenient client servicing can be promoted by delegating responsibilities to the correspondents, as happens with Malayan-CLIS.

Leveraging the distribution channel brand overcomes distrust of insurers and can drive cost-efficiencies. Partner resources and channels can be combined in creative ways to take advantage of their infrastructure and expertise.

Investing in systems can drive efficiencies in the long run and at scale (but will entail short-term costs).

It is clear that creating a value proposition for all stakeholders across the value chain is critical. Delivery channels and partners usually own the clients and control access. Therefore it is imperative that the business model is one that is beneficial to them and ideally creates adjacencies and/or provides sufficient revenue to cover the cost of distribution and make a decent return.

**Adjacencies can act as the glue that aligns incentives between the partners and improves client value.**

Insurers are more likely to get buy-in from stakeholders if the product creates positive adjacencies that are linked to their core operations. Adjacencies also translate into better customer experience – a key client value proposition component and an important strategy to win the market. Ultimately, there is a correlation between adjacencies and the client value proposition derived.

**Creating client value with viability and scale can take time.** The products with the highest average PACE scores were both mature models with a positive net position. Partners must also be willing to allow the model to “evolve” and be prepared to invest in the necessary changes (or adapt the necessary levers) that will improve the client value proposition and the viability of the model, including by adapting product features and giving agents extra training.

**Client value as a prerequisite for scale (and viability).** It is difficult to attain scale without a client value proposition – especially in the short term. Scale is more likely to be achieved when there is a solid client value proposition (better experience, etc.) that will be enhanced by positive adjacencies. Ultimately in the long run, high-quality products are needed to achieve scale.

Overall, we have found that the ACTA and PACE tools allow for an analysis of the drivers of financial viability and client value in microinsurance products produced and sold by insurers in partnership with retail and banking correspondents. Such an analysis can support the design of equitable and sustainable partnerships that provide client value and support the shift to scale. We trust that these tools can be re-used by those looking to enhance and support their current partnerships.



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## APPENDIX 1: LIST OF STAKEHOLDERS INTERVIEWED

Name	Organization	Designation
<b>Bradesco</b>		
Regina Simões	BSP Affinity	
Marico da Luz	BSP Affinity	Distribution channels
Marcos Teixeira	BSP Affinity	Welfare, operations and products division
Rodolfo Ern	Bradesco Seguros e Previdencia.	Superintendent of Institutional Relationships
Osmani Prado	Bradesco Expresso	Multiplier/Broker
Andressa Zorgetti	BSP Affinity	Commercial Manager
Mario Martins	Orizon	Commercial Director
Joao Paulo de Mattos	Orizon	Account Head
Luiz Alberto Ortiz	Orizon	Director of IT
<b>Malayan-CLIS</b>		
Jonathan Batangan	CLIS	General Manager
Rhoneil Pascual	CLIS	Operations Manager
Gilbert Chua	CLIS	Accounting Department Manager
<b>Hollard-Edcon</b>		
Mokale Sekute	Hollard	General manager
Edgar Evans	Edcon	Executive manager – financial services
<b>HDFC-FINO</b>		
Devedra Shahpurkar	FINO	
Ashish Ahuja	FINO	
Samdarshi Singh	HDFC ERGO	
Priya Sampathkumar	HDFC ERGO	
Saurabh Sharma	CIRM	

With thanks to the many retail and banking correspondent managers and staff whom we interviewed.

## APPENDIX 2: EXAMPLE OF ANALYSIS USING THE ACTA FRAMEWORK

A leading insurer (Insure4All) partners with a mobile network operator (CellWin) and a technical service provider (M-insure) to facilitate the provision of an m-insurance product. The premium paid per client is 100 cents.

**Actuarial income and expenses.** As part of the agreement, Insure4all agrees to pay CellWin a commission of 20 per cent (20 cents) of the premium paid, while M-insure will receive a 10 per cent (10 cents) commission. In addition, the loss ratio (claims) for the product is 55 per cent (55 cents). Therefore the net actuarial position amounts to 100 cents (premium paid and revenue received) minus the loss ratio 55 per cent (55 cents), other actuarial costs and contingencies (5 per cent) and commission paid (30 per cent), which equates to 100 cents (100 per cent) minus 90 cents (90 per cent). Therefore Insure4all's net actuarial position amounts to 10 per cent (10 cents).

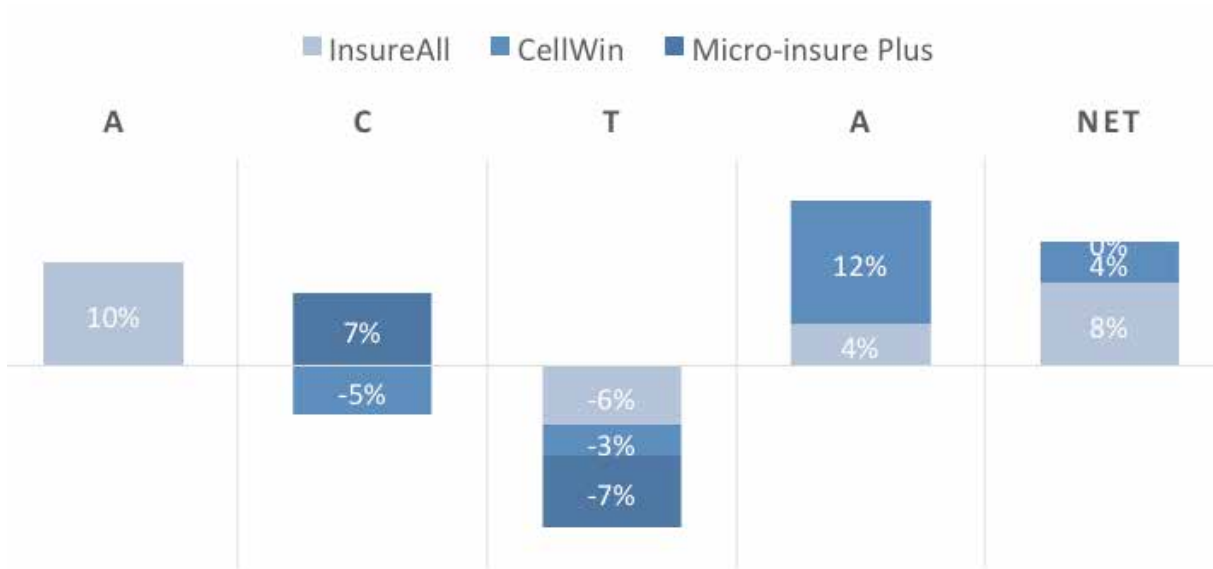
**Client origination income and expenses.** Both M-insure and CellWin play key clearly defined roles pertaining to client origination. The commission received by both parties is reflected within their books. Clients pay for the premium through CellWin's mobile money platform. In addition M-insure is responsible for sales administration and designing the promotional campaigns. It costs CellWin 25 cents per policy to use the mobile money platform; this is also largely on account of the technology costs of integrating the insurance product on CellWin's front-end mobile money platform. In addition, the time per sale for insurance is lengthy and has resulted in a poor sales conversion ratio. M-insure's role concerning client origination is limited to providing technical support and designing campaigns that support sales agents, and this costs CellWin an additional 2 cents per policy. The net client origination position is calculated by subtracting the client origination costs (27 per cent or 27 cents) from the total commission received (30 per cent or 30 cents). The result is a net positive position for both CellWin and M-insure, as the income received as commission covers both partners' client origination costs

**Transactions.** Insure4All still pays for administration costs despite the policy administration role played by M-insure. Insure4All is responsible for claims administration while claims payouts are made through CellWin's mobile money platform. There are no significant premium collection costs as the mobile money platform was designed to incorporate an auto-debit function that debits the client's mobile money account with the premium due at the beginning of every month. Therefore the transaction costs per policy for the various parties are 6 per cent (6 cents) for Insure4All, per cent (7 cents) for M-insure 7 and 3 per cent (3 cents) for CellWin. Therefore the total transaction cost amounts to 16 per cent (16 cents).

**Adjacencies.** Premium payment is done via CellWin's mobile wallet and by virtue of this there are natural adjacencies that arise for CellWin. CellWin subscribers that are insurance clients will have to ensure that they have a sufficient account balance to cover their insurance premium every month. Therefore there is float income that is directly attributable to this model. Moreover, clients have to transact (through cash-in transfers) in order to maintain their mobile wallet balance – this leads to increased mobile wallet usage and increased transactional fees – which ultimately translates to higher revenues for CellWin, resulting in adjacencies amounting to 12 per cent (12 cents). Insure4All also gains adjacencies in the form of traditional investment income, as a percentage of the premium is allocated towards such investments. Insure4All gains 4 per cent (4 cents) in adjacencies.

Therefore the net position of the alternative distribution partnership is shown in Figure 14 below.

Figure 14. CellWin ACTA net position



In the above hypothetical model we see that business model viability is driven by the Actuarial and Adjacency components.

- The insurer primarily gains its revenue through its actuarial margin and its investment income adds to its profitability.
- The mobile network operator is in the red until adjacencies kick in and it is the adjacent income that is the business model driver for CellWin. It is therefore important that CellWin tracks both commission and adjacency revenue effectively to get a net position. Without this the insurer may find they lose their aggregator or that the mobile network operator decides to buy a licence.

For the technical service provider it is essentially a break-even scenario at current scale and growth in scale may offset some of the initial investments made, or if the status quo remains, it may need to reconsider the incentive alignment.

Thus the ACTA framework can be used to make insightful assessments of the microinsurance model, assess the drivers of growth and sustainability and guide the corrective action needed if significant challenges emerge.

## IMPACT INSURANCE FACILITY

Housed at the International Labour Organization, the Impact Insurance Facility enables the insurance industry, governments, and their partners to realise the potential of insurance for social and economic development. The Facility was launched in 2008 with generous support from the Bill & Melinda Gates Foundation, and has received subsequent funding from several donors, including the Z Zurich Foundation, Munich Re Foundation, the IFC, USAID and AusAID.



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