

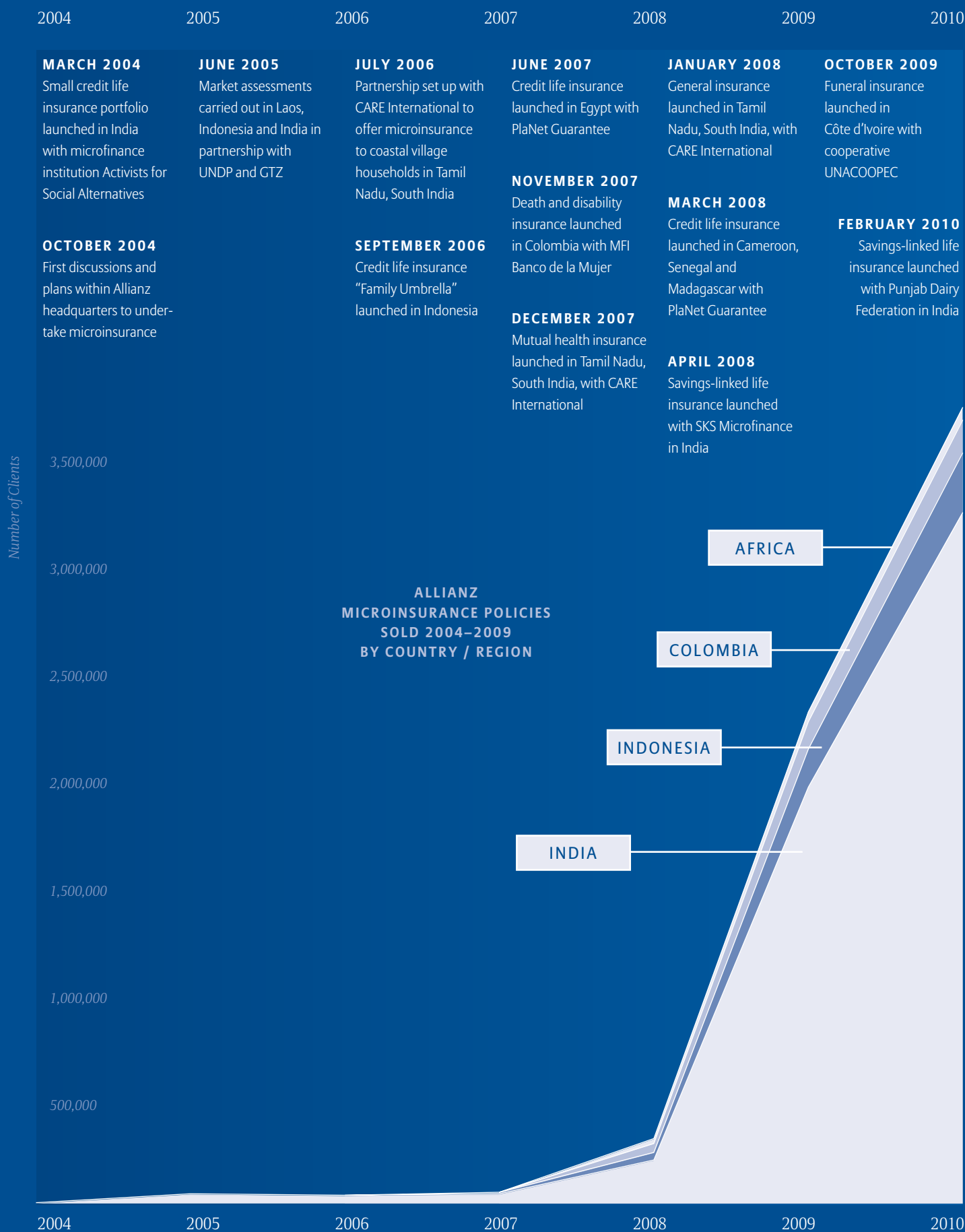


learning to insure the poor

microinsurance report
allianz group



On the learning curve – Six years of microinsurance at Allianz



Half the world –
the market for
microinsurance.

Four billion people live on incomes of less than eight dollars per day. 2.6 billion have to get by on less than two dollars per day. Besides suffering daily deprivations, the world's poor are often more exposed to risks ranging from disease to crop failures to the consequences of climate change.

Microinsurance could help many of these people escape poverty. It contributes to wealth creation by insuring against risks and thus enabling investments and accumulation of assets. But unlike microloans, which are already well established, insurance policies have been considered too complex and cost-intensive to be financed with small amounts of money and marketed in rural regions.

Together with our partners – UNDP, GTZ, CARE International, PlaNet Guarantee, SKS Microfinance, and numerous microfinance initiatives and cooperatives – we have been able to sell our life insurance, property insurance, and health insurance policies to 3.8 million customers in India, Indonesia, Africa, and Latin America. It is the beginning of a learning process. With this report, we want

to share our experiences so far, present the views of leading experts, and – in dialogue with you – set the right course for the next steps to be taken.

We see a considerable number of challenges on the way:

- How can risks be assessed and shared in the absence of sufficient data?
- How can products be adapted to meet the diverse needs of customers while still being standardized for cost efficiency?
- How can sales and administration be organized even more efficiently?
- How can people in often remote regions learn about insurance and how to use it for their own benefit?
- In some countries, laws have been passed that create the first incentives for microinsurance policies. But what can be done to establish market conditions that foster competition in a sustainable way?

By finding answers and solutions, we hope to help as many people as possible attain prosperity and to serve them as customers over the long term.



Photo: Allianz SE

Michael Diekmann
Chairman of the
Board of Management
Allianz SE

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What is microinsurance?

Some typical Allianz microinsurance customers: dressmakers in Aceh, Indonesia.

- **Microinsurance offers protection** against the risks in life specifically for low-income people in developing countries, with customized products and processes.
- **Low-income people** are often more exposed to such risks as death, illness, and loss of property or harvests because they make their livelihoods in agriculture, for example, or live in areas prone to natural disaster.
- They are also **more vulnerable**, with few assets and therefore less ability to cope with loss. Shocks can easily lead to destitution.
- Microinsurance responds to **difficult market conditions**. Premiums are small enough to be affordable, documentation is reduced to a minimum, and delivery channels reach out to the slums and villages.

Family Umbrella – Starting up with credit life insurance in Indonesia

By introducing a simple product, Allianz could explore the unknown market of low-income households. They are now adjusting the product to protect families even better.

Could there actually be a market at the base of the economic pyramid?

Zakiah proudly presents the inventory of her small textile shop. Shirts, dresses and pants of all colors are stacked within a few square meters in the heart of Jakarta, the capital of Indonesia. With the income from her shop, Zakiah supports her father and six siblings, who share a small home. She also pays her youngest brother's school fees. Before, Zakiah's mother also contributed to the family budget with her doughnut stall. When she died of diabetes a month ago, her family was left mourning, but not indebted. Zakiah's mother had taken out an automatically insured microcredit of € 77 from a local microfinance institution (MFI) that cooperates with Allianz. Allianz covered the credit and paid € 154 to the family. Zakiah used some of the funds for the funeral ceremonies. She invested the greater part of the money to buy better stock for her business.

Her income has tripled: "I now earn € 4.60 on an average day. Together with my father's earnings as a parking lot guard, we get by well."

First steps in India

Allianz had made first steps in offering microinsurance in India. Together with the MFI Activists for Social Alternatives (ASA), Allianz had started to offer credit life insurance: ASA's microloans were bundled with coverage for the outstanding debt in case of the borrower's death. Their experiences were quite encouraging. Could there actually be a market at the base of the economic pyramid?

Mapping new territory

Allianz was entering new territory: low-income markets. Information about them was scarce since standard market research did not cover these households. To map out this white

Zakiah
(1st from right)
talked with staff of
Allianz and the
partner MFI about her
experience with
microinsurance.



Photo: Martin Hintz



Photo: Martin Hinz

Focus groups like this one in East Jakarta were asked what risks people faced, what insurance products they would buy and how much they were willing to pay for insurance.



Photo: Martin Hinz

Evi Kristianingsih took out an insured credit for her small shop in Jakarta.

space, the company teamed up with experts: the German development agency GTZ and the United Nations Development Programme (UNDP). Together, they conducted demand studies in India, Indonesia and Laos. What risks did people face and what strategies did they use to manage them? What insurance products would low-income people want to buy? How much would they be willing to spend?

Promising sales opportunities were identified in Indonesia and India. In Indonesia, market penetration for insurance was low and few companies were reaching out to low-income families, even though demand was high: a clear gap. Allianz decided to develop customized products in Indonesia and

broaden its engagement in India. The market in Laos, however, was not ready for microinsurance.

Opening the family umbrella

In Indonesia, households were most concerned about the education of their children, serious illness, and the loss of harvests. But insuring these risks is complicated and requires a deep understanding of the market. Households were also concerned about the death of relatives, especially since elaborate and expensive funeral traditions can easily throw a family into debt. So Allianz decided to start with credit life insurance, where claims are easy to assess and settle and the risk of fraud is low. Moreover, the company could build on an established model in India, and learn from other companies

that already offered credit life in Indonesia. To provide additional value, Allianz decided to pay out twice the amount of the loan to the family, on top of the credit cover for the MFI.

Payung Keluarga, meaning “Family Umbrella” in Bahasa Indonesia, the local language, was launched in September 2006. The insurance automatically applies to all new credits issued with the MFIs – regardless of the background of the borrower – which greatly simplifies the sales process. The premium of 1.2 percent of the loan amount per year is withheld when the loan is disbursed.

Gauging impact

Sales have grown rapidly: In 2009, Allianz handed out 209,000 policies, six

Microcredit – Paving the way for microinsurance

Microcredits are very small loans that help those living in poverty become self-employed or expand their businesses. A global success story, microcredit has proven that low-income people are willing and able to pay for financial services. Recognizing these achievements, the Nobel Peace Prize was awarded to Grameen Bank founder Muhammad Yunus.

Microcredit products are designed specifically for low-income people. Since borrowers can rarely offer collateral, they often stand in for one another in groups. Loans are small, typically around €100, and short-term, often running for just a few months. While interest rates can be high compared to Western standards, ranging from 20 to 70 percent annually, they

are small compared to those of traditional money lenders, who can charge 500 percent and more.

Microinsurance gets its inspiration from microcredit. What is more, it learns from microcredit’s principles and builds on its networks.



Photo: Martin Hintz

Group treasurer Ibu Nur pays the group micro-credit installment in Jakarta.



Photo: © Martin Hintz

Staff of an MFI after having received training from Allianz on how to explain, sell and service microinsurance from Allianz project manager Martin Hintz (in the back).

“The most important thing for us is to acquire new customers and grow with them.”

Jens Reisch,
CEO, Allianz Life Indonesia

times more than in 2007. Premium income has risen as well, yielding more than €165,000 in 2009. Though this sum is still relatively small, it already includes a profit. Jens Reisch, CEO of Allianz Life Indonesia, is optimistic

about the prospects of microinsurance: “The most important thing for us is to acquire new customers and grow with them. Then our portfolio will begin to expand.”

But Martin Hintz, the project manager of Palyung Kaluarga at Allianz, was not satisfied with the social impact of the insurance: “Impact is still literally micro,” he says, having interviewed 26 beneficiary families. “Payouts were mainly spent on funerals, which would otherwise be supported by friends and family. Some customers spent more on those funerals than they otherwise would have. Others gave to charity because they felt the money belonged to the deceased. Because it is tied to microcredit, the insurance covers mainly

women, who are rarely the main breadwinners at home. So the greater economic risk is not actually covered.”

Expanding the umbrella


In 2008, Allianz Indonesia began to offer insurance that covers the spouse of the insured as well. This improved product thus provides coverage when the main breadwinner dies. Martin Hintz highlights another benefit: “Because joint coverage is optional, the MFI has to make an active choice for it. This ensures that MFI staff are properly informed about product characteristics.” The company is now busy marketing the improved product – for its own benefit and that of people like Zakiyah.



Watch the video about Ida Rosina, one of Allianz customers in Indonesia

PARTNER SPOTLIGHT

gtz

GTZ  is an international development agency of the German government. GTZ promotes microinsurance as a pro-poor financial service and as an important strategy to increase social protection. This includes health microinsurance schemes, improved risk management and index-based weather insurance for agriculture. GTZ also promotes insurance literacy and consumer protection.

GTZ hosts the [Access to Insurance Initiative](#) , a global partnership between insurance supervisors

and development agencies. Its goal is to strengthen the capacity and understanding of insurance supervisors, regulators and policymakers.

Together with Allianz and UNDP, GTZ supported the demand studies in India, Indonesia and Laos that led to Allianz microinsurance activities in Indonesia. The agency also facilitated contacts with MFIs and contributed expertise during the product development process.

Half the world – The market for microinsurance

Four billion people live on the equivalent of eight dollars a day or less in local purchasing power. Called the “base of the economic pyramid,” they are not actually a homogeneous segment, but rather a diverse group ranging from pastoralists and small-scale farmers to urban craftsmen and shop owners, with a wide variety of lifestyles and living standards, from the destitute to an aspiring middle class. Microinsurance targets those in the middle. The extremely poor, living on less than a dollar a day, have too few assets and need humanitarian aid; the wealthier can often access traditional insurance products.

\$5 trillion in purchasing power

The four billion people at the base of the pyramid spend five trillion dollars per year in local purchasing power, according to research by the World Resources Institute and the International Finance Corporation. Households spend most of their budgets on food and other basic necessities like housing and energy. Still, close to one trillion dollars are available for other things, including financial services. Yet Microinsurance Centre data show that only 78 million people were covered by microinsurance in the world’s 100 poorest countries as of 2006—a tiny part of the potential market.

Demand for reliable financial services

Most low-income households don’t live from hand to mouth, but manage their funds over time. Insights on the “portfolios of the poor,” studied by Jonathan Morduch and his colleagues, can inform the design of targeted products:

- The incomes of the poor are not just low, but also irregular and unpredictable. Farmers face the ups and downs of seasons, income from microenterprises is volatile, employment comes and goes.
- The lives of low-income people are more uncertain than those of the better off. Low-income households face higher risk of health problems, accidents and death, and they often live or work on land that is prone to natural disasters.
- People use a variety of mostly informal tools to spread their incomes over time, deal with risk and put up large sums when needed. They borrow from friends, save in groups with neighbors or get advances from the grocery shop. These tools are flexible, but also often unreliable.

Morduch summarizes: “Poor households show that they are impatient for better-quality service, inventive in bending such services for their own purposes, willing to pay for them, and longing for more reliable financial partners.”

Safety & opportunity – Benefits of insurance

Insurance helps low-income customers in two ways.

Preparing for loss

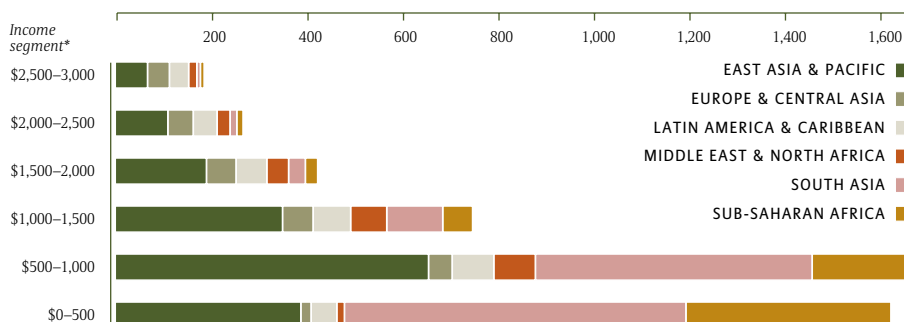
First, it can help people prepare better for risks and encourage them to invest more. In the absence of insurance, a natural response is to reduce risk. People don’t invest much in their homes or belongings when they can be lost at any time. They also diversify their income sources, from agriculture to migrant labor and home production. But that lack of specialization keeps productivity low.

Coping with loss

Second, insurance helps people cope with loss when it occurs. In case of loss, low-income households first rely on their own assets. They draw down their savings and sell their property, leading them deeper into destitution. Some have to take their children out of school to earn additional income.

Social networks help. People use a range of mechanisms, from family obligations to mutual insurance schemes, to support each other. But these mechanisms break down when hardship affects all members of a network at the same time, like when a drought destroys the harvest. Insurance with larger risk pools can provide security in these cases.

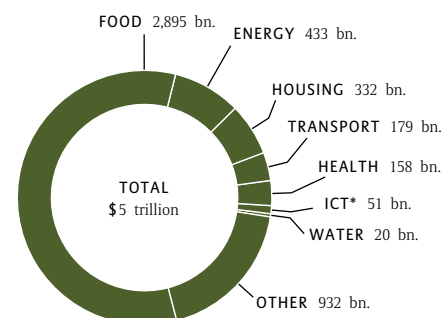
Number of people living on the equivalent of less than \$3,000 in local purchasing power per year by region and income segment (in millions)



* Income is measured in local purchasing power, with 2002 as the year of reference. Note: The World Bank counts 4.9 billion people living on less than \$3,000 per year. There are a number of possible reasons for the difference with the 4 billion counted by IFC and WRI. For example, “The Next 4 Billion” considers only 110 countries.

Source: PovcalNet / World Bank

Spending per sector by people living on less than \$3,000 per year (in US\$)



* ICT = Information and Communication Technology

Source: IFC/WRI (2007) Next 4 Billion

“Microinsurance can fill huge gaps in risk management”

Photo: © Jonathan Morduch



Jonathan Morduch talked with us about how microinsurance can help low-income people improve their lives. The professor of public policy and economics at New York University focuses his research on international development, poverty and financial access. He is a co-author of *Portfolios of the Poor*, a one-year, on-the-ground inquiry into the financial lives of 300 low-income households in Bangladesh, India and South Africa. He also leads the [Financial Access Initiative](#), a consortium of development economists focused on expanding access to quality financial services for low-income people.

What role do risks play in low-income people's lives?

Risks were very much a problem for the households interviewed for *Portfolios of the Poor*. In Bangladesh and India, my co-authors Stuart Rutherford and Orlanda Ruthven found that roughly half of the families had major health crises during the year. And in South Africa, Daryl Collins found that about 80 percent of the families had to contribute substantially to funeral costs, largely due to HIV/AIDS. So families were thinking a lot about risks.

How could microinsurance help them manage these risks?

Most low-income people rely on informal insurance. They borrow and draw on their friends and neighbors to deal with crises. This works reasonably well for small problems affecting only a few members of a community at a time. For anything else, it can be fairly unreliable. And microinsurance promises to bring the reliability of formal insurance to the poor.

Microcredit has received a lot of attention. What additional benefits does insurance offer?

Credit is very important in risk management, and savings are important as well. But poor families often face risks that neither credit nor savings can address.

Plus, microcredit is usually provided for business needs, not for paying for doctors, medicines or property loss. In *Portfolios of the Poor*, Stuart Rutherford finds that about half of Grameen Bank customers interviewed used their credits for consumption. Households used credit to deal with risks or irregular expenses because they lacked better instruments like microinsurance.

And while small enterprises are important for poor communities, they may not grow as quickly or contribute as much to the local economy as hoped. It's possible that better risk management tools could help to foster that kind of expansion.

What can microinsurance learn from microcredit?

First, households are willing to pay reasonably high prices if products and services deliver quality. But paying premiums charged as a single lump sum can be difficult. Breaking payments down into a series of small installments often allows households to manage their cash flows. Second, households can understand fairly complicated contracts – when described in a way that makes sense in their local context.

Could access to insurance also harm the poor? How can they be protected?

In general, not having insurance is a greater risk than having insurance. But there's much to learn from efforts to improve consumer protection in micro-credit. New measures give customers ways to resolve disputes with providers and improve the transparency of contracts. In insurance, credit life products can be particularly hard to assess since the price is usually rolled into the credit contract itself. Many households lack a clear understanding of how much they are paying relative to what they are actually getting out.

How could microinsurance contribute to achieving the Millennium Development Goals, the United Nations' commitment to halve poverty by 2015?

Hunger has many causes, but supporting farmers through basic crop insurance could help. And health problems are often financial problems. The poor might be able to pay for a local doctor, but lack the resources to buy medicines or go to a hospital. Simple health insurance could cover these bigger health expenses and thus address one of the biggest problems millions around the world face.

2 DESIGN

Women participating in a self-help group meeting to discuss microinsurance in Nagapattinam, a flood-prone area of South India.

Photo: Rustom Sengupta

How can we create products for low-income people?

- To **create value**, microinsurance products must be significantly better than currently available risk management options.
- **Health insurance** is the top priority of low-income households, but life insurance is most widespread.
- **Demand studies** can identify gaps in risk management as well as risk profiles, price sensitivities and service preferences to inform product design.
- **Actuarial data** on risk patterns is sketchy, and therefore pricing is often adjusted with experience.

Cyclone Nisha – Blowing general insurance down in South India

Microinsurance can help low-income people face up to increasing climate risks and extreme weather events. But developing viable products is challenging due to a lack of data and experience.

Climate change is rapidly altering global weather patterns. And the world's poor, who are least responsible for the changes, stand to lose the most – because so many rely on agriculture for their livelihoods or live in areas prone to flooding. From 2000 to 2004, 262 million people were affected by climate disasters annually – over 98 percent of them in the developing world, according to the UNDP.

Four years after the devastating tsunami of 2004, the coastal communities of Tamil Nadu on the southern tip of India had rebuilt their homes and fishing enterprises. In November 2008, another natural catastrophe – Cyclone Nisha – destroyed these barely regained livelihoods. This time, however, 16,000 families could fix the damage quickly thanks to insurance they held with Allianz.

Matching up complementary capabilities

CARE International was one of the many non-governmental organizations (NGOs) that helped people recover after the tsunami. Yet CARE not only assisted people with their immediate needs for shelter and food, but also took a long-term view to enabling people to find ways out of poverty. Protecting livelihoods was clearly a key concern after the crisis, so CARE explored how insurance could help.

At the same time, Allianz was investigating ways to expand its microinsurance offer in rural India. Executives in Munich had been shocked by the impact of the tsunami: while the giant wave had taken the lives of 230,000 people and destroyed the property of millions, it had hardly touched the company's balance sheet. Those who had suffered were simply not insured. This needed to change. "As we got together with CARE, it became clear ►

"Over
98 percent
of those
affected by
climate disasters
live in the
developing
world."

Human
Development
Report 2008,
UNDP

Two young men
stand in the floods
that devastated the
south of India after
Cyclone Nisha in
November 2008.





Cyclone Nisha destroyed thousands of huts like this one in Kandhamangalam.



Women queue to sign up for general insurance.

that both our organizations could complement each other in our endeavors,” remembers Michael Anthony of Allianz headquarters, who initiated the partnership. “CARE had been working with low-income households in India for more than 50 years and was collaborating closely with community-based NGOs, reaching deeply into local communities. Allianz had the financial management experience and processes.”

Understanding demand

The product should respond to the needs of the communities affected by the tsunami. A team of researchers went out to talk to more than 1,000 households in 22 villages and four districts. Everywhere, people were surprisingly poor despite the outpouring of humanitarian aid after the tsunami: 42 percent of families

lived below the poverty line, and only a few owned a boat or piece of land.

Despite their meager assets and incomes, many families were prepared to pay for insurance. Almost half named health insurance as their first priority, followed by maternity benefits, old age pensions and disability assistance. Life insurance was already available in the region, and hence was not in high demand. Asked about payment options, most families said they preferred monthly contributions. They felt most comfortable paying via self-help groups, especially for health insurance, followed by post offices and banks.

Defining an innovative product

This detailed picture enabled Bajaj Allianz, the Indian Allianz joint venture,

and CARE to develop a new product: a general insurance policy that covered a range of risks. Buying one policy for multiple risks was attractive to low-income households, who don't want to tie money up in several policies, some of which may never lead to a payout. For €0.95 per year, policyholders would receive a defined payout in case of total or partial disability, hospitalization, loss or damage to the household or other assets, and death. The policy also included an education grant for one child. For another €0.65, a spouse could also be insured.

Neither partner had information on the probability of loss. Little data existed on any of the insured risks. The only option was to get a product into the market and learn to price it from experience. The

Building a future – Construction advice to strengthen property insurance

In the villages of Tamil Nadu, most people construct their own homes. Jamuna Bhaskhar of Bajaj Allianz explains: “Our engineers realized that by making simple changes to the structures of the cottages, the damage could be reduced by around 40 percent.” CARE now provides advice on how to make houses more durable.

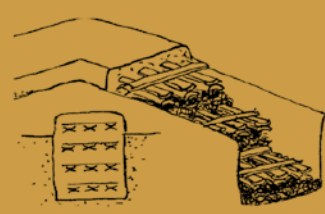


Figure 5: Pictures from an instruction leaflet that explains how to construct a solid foundation.



Bajaj Allianz staff settle claims with policyholders after Cyclone Nisha.



Fishermen fix their boat, which had been broken by the cyclone.

partners agreed to review the product's performance annually, so that Bajaj Allianz could adjust its pricing in response.

Facing the cyclone

Sales started in March 2008, with a focus on the coastal area most prone to natural disasters. Within the first nine months, nearly 63,500 policies were sold. When Cyclone Nisha hit in November 2008, thousands of families lost their homes and belongings. Bajaj Allianz and its partner organizations assessed over 16,000 claims in 44 villages. Jamuna Bhaskar, former head of Bajaj Allianz regional office in Chennai, sees the benefit of the effort: "People are queuing up to buy these policies. They saw that our team was on the ground in harsh conditions and that the neighbors who had insurance really received money."

While it protected policyholders, Bajaj Allianz young venture emerged from Cyclone Nisha in dire straits. The company had paid around €800,000 in claims settlements – nearly ten times the amount it had collected in premiums. Dr. Ashok Patil, Head of Rural Business at Bajaj Allianz, recalls: "We had to seriously assess the commercial viability of the product." To improve the business case, Bajaj Allianz decided to develop the product further in two directions. First, it raised the premium from €0.95 to €2.95 a year. Second, it expanded to other districts, especially inland areas that were less prone to disasters, in order to grow the portfolio and diversify the risk. By challenging the product, Nisha may actually have put wind in its sails.


"Many poor people didn't understand why they should pay money for insurance. Now they realize the value of their investments."

R. Devaprakash,
Project Director, CARE

[Watch the video on claims settlement after Cyclone Nisha](#)



PARTNER SPOTLIGHT

CARE International  is one of the largest development organizations in the world, with programs in 70 countries. CARE invests in solutions that enable people to move away from long-term dependency and make a decent living for themselves. It has operated in India since 1950.

CARE is convinced of the power of microinsurance to alleviate poverty. R. N. Mohanty, Chief Operating Officer of CARE India, says: "We realized that we would need products that suited the requirements of the poorest. Allianz was open to this idea and agreed to design products for the poor. Now we have one of the largest NGOs and one of the largest insurance companies in the world joining hands in one of the best development partnerships in the private sector."

More health, please! – Product demand & supply

Today, there is a big gap between the demand for insurance, where health is the top priority, and its supply, which is dominated by credit life insurance.

Demand for health insurance

Demand studies show that low-income people are above all concerned with the risk of health problems, followed by death and property loss. In Tamil Nadu, these preferences reflect people’s actual risk profiles, as a CARE study showed. More than 1,000 households were asked which shocks they had suffered in the past year. Health crises had occurred, on average, more than once in every household. All other events were much less frequent. 13 percent reported the birth of child and 12 percent marriage, occasions that require lump sums of money. Accidents, death, and loss of livestock happened in around five percent of households.

Supply of life insurance

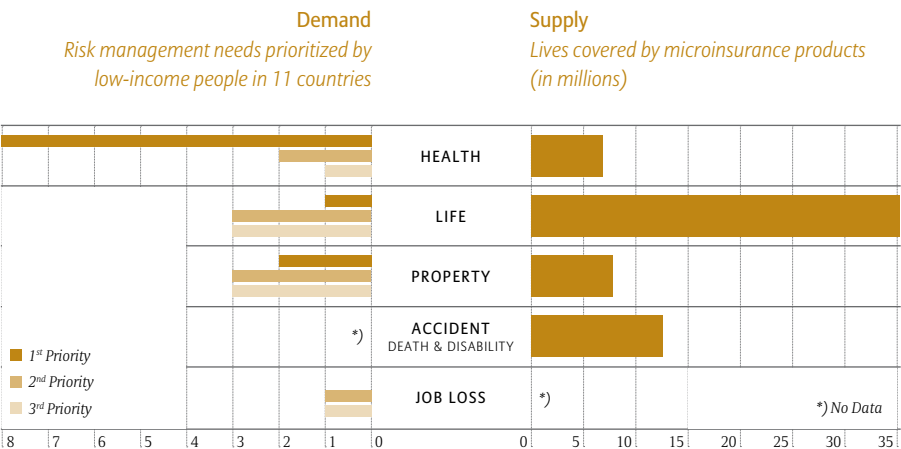
The microinsurance supply looks completely different from the demand for it. Today, life insurance is the most widely available product, followed by accidental death and disability insurance. Health and property insurance are still rare.

The mismatch between supply and demand can be explained by the relative complexity of the different products: health and property insurance are much more difficult to provide than life, accidental death and disability insurance. Issues of adverse selection and moral hazard occur more frequently. Claims are also harder to assess and fraud more difficult to control.

Essential product features

The key success factor for any microinsurance product is that it creates obvious value for the user. Three general product features are essential:

- **Small:** Product premiums are affordable, with a low overall cost and payment plans adjusted to the cash flows of low-income people, with frequent, flexible, small installments.
- **Simple:** Products are easy to understand, with few exemptions and simple structures. Administration is kept simple to save time and enable outsourcing to partners.
- **Service-oriented:** Customers have reliable, convenient access to services in the urban slums and rural villages where they live.



Source: Microinsurance Centre (2007) Landscape Study

Assessing needs, approximating risks

The success of a microinsurance product depends on a deep understanding of the needs and risk profiles of the target group. Unfortunately, for low-income households, this information is not easily available. Market research must be done – but in the slums and villages, it can be difficult.

Market research is challenging

Access to transportation, telephone lines, the internet and even postal service is low in many places. Surveys, whether by paper, phone, or in person, are difficult to organize. Communication has to take the respondent’s background into account. Dialects, technical terms and cultural differences can create barriers. Illiteracy is still common, with UNESCO reporting 750 million people globally unable to read, often women in rural areas. Financial literacy is low and many people do not understand or are not even aware of insurance.

Local organizations can help

Local organizations like NGOs can help overcome these challenges. They can organize surveys and focus groups based on existing relationships. They know how to ask people about the risks they perceive, the losses they experience and the ways they cope with them.

Risk assessments remain difficult

Risk patterns emerge from such assessments, but without historical data, they provide a rather limited basis for actuarial calculations. Quality weather, mortality and health spending records are rarely available. The lack of data often forces companies to calculate risks conservatively, making premiums higher than necessary. As experience grows, premiums can be adjusted.

“If you want people to buy it, they have to see a need for it”

Michael J. McCord on future products

Photo: Martin Herndorf



Michael J. McCord talked with us about current gaps and trends in microinsurance product development. He is president of the [Microinsurance Centre](#), an organization dedicated to creating partnerships between insurers and delivery channels that result in low-income people around the world gaining access to quality microinsurance products. The center focuses on advocacy, market research and product development.

How can the current microinsurance product offering be improved?

One issue here is value to customers. For example, many customers don't see credit life insurance as a valuable product. Especially where it just covers the credit, it is considered only useful for the MFI. Health microinsurance with traditional exclusions and reimbursement methods also offers limited value. Like every other product, if we want people to buy it, they have to see a need for it, and it has to be easy for them to access.

Where do you see gaps in today's product offering?

There are huge gaps in health insurance. When you look at the risk management strategies of low-income people, their biggest issue tends to be hospitalization. It happens suddenly, and in most cases they need cash to get service. If they don't have cash, they end up selling the family cow in East Africa or the rice paddy in Cambodia. They do whatever it takes. When the crisis is over, they return from the hospital and do not have productive assets anymore.

What are the barriers to developing products that create value for low-income customers?

The lack of data is an issue. Right now, actuaries typically use whatever numbers they can find to do the pricing.

This leads to higher premiums than necessary, at least initially. If these rates are not tracked and adjusted moving forward, this can result in low value for policyholders, and diminished uptake.

But the greatest barrier for microinsurance products now is delivery. We do see products like credit life insurance because you can force people to buy it together with microcredit, so the adverse selection risk and operational costs are virtually nothing. Once you get into more complicated products, you have to explain them better and address these issues.

How can we overcome the delivery barrier?

MFIs have been a good first entry, because they can get insurance out in large numbers using existing marketing, training, and servicing channels. But MFIs are limiting as well and we need to move to other delivery channels such as retail outlets, post offices or electronic mechanisms. Where do you get the sales there, if you don't have someone to actively explain it in a market that is very untrusting of insurance? This will require better market education to help people better understand, and indeed appreciate, the value of microinsurance.

What is the role of regulation in product development?

Regulation can push microinsurance as it has done in India, where insurers are obliged to do part of their business in rural areas. Or it can facilitate, like in the Philippines and Peru, where the rules under which microinsurance operates have been clarified. That said, regulators must also be careful to not stifle experimentation. This industry is still very young and we do not have clear best practices yet. Hindering experimentation at this point could restrict its development.

Who will drive product development?

I believe that commercial insurance companies are where microinsurance will get its growth. They have the systems and the insurance know-how. Yet they have to go through a paradigm shift. Microinsurance is not just the same old products with reduced premiums and coverage levels. It requires a dramatic refocus in every aspect of product development and delivery.

We need more commitment and understanding from insurance company head offices. We need the senior management to understand that microinsurance has to be done in a different way. We do not need a different company to do it, but we need a different mindset!

3

OPERATIONS

Fatima, a Muslim coordinator of a village women's self-help group, going for a monthly meeting with other members in Cuddalore, Southern India.

Photo: Rustom Sengupta

How can we deliver on what we promise?

- Delivering microinsurance requires a lot of **customer interaction** to collect premiums and settle claims.
- **Infrastructure is weak** in many low-income markets, driving up the cost of transactions.
- **Leveraging existing networks** like those of community organizations, NGOs and MFIs helps to provide good service at affordable cost.
- **Technology** promises to increase efficiency, for example through better data handling and fraud control.

Self Help – Strengthening mutual health insurance in South India

“Health care costs were responsible for over half of all cases of decline into poverty in Indian villages.”

Indian National
Planning Commission

Health issues are a major cause of poverty, but health insurance is difficult to provide. Building on existing mutual insurance schemes, Allianz has found a viable model.

In India, health issues often lead to financial catastrophe. Only 10 percent of Indians have some form of health insurance, and most of it is inadequate, according to the World Bank. More than 70 percent of all health expenditure is paid out-of-pocket. Studies in villages found that health care costs were responsible for over half of all cases of decline into poverty. R. Devaprakash, Project Director at CARE, observes: “It is health risk and the consequent expenditure that impoverish the poor. It drains their income and burdens them with debt to informal moneylenders at exorbitant rates of interest.”

The high cost of medical care also keeps people from seeking help. Low-income people use health services less frequently, and they rely more heavily on untrained health practitioners providing low-quality service.

Building on solidarity

Across India, self-help groups have used mutual health insurance to face up to this risk. Self-help groups are common in India, especially in the south, where they exist in virtually every village. 10 to 15 women meet regularly, contributing small amounts of money until there is enough cash to start lending – for almost any kind of need. A growing number of self-help groups also dedicate part of the money they collect to mutual health insurance. Members then pay health expenses out of this common fund.

Sharing responsibility

Mutual insurance has one major drawback: risks are shared only within a small group. Large claims easily exceed the resources of the fund. This severely limits coverage and in many cases, local schemes have gone bankrupt. Bajaj Allianz and CARE realized they could build on



A woman and her child consult a doctor.

Photo: Ray Wither / World Bank



Photo: Nicola Tewes



Photo: Rustam Sengupta

Solidarity is the foundation of Indian self-help groups like these in Tiruvali.

Awareness campaigns show the risks that can be insured.

and significantly improve existing mutual health insurance schemes. In their model, smaller claims are managed by the mutual and Bajaj Allianz steps in for larger claims like surgeries and hospital stays. The model builds on the strengths of both sides: the low cost and mutual control of local self-help groups, and the reach and technical know-how of Bajaj Allianz. CARE acts as an intermediary, working with local NGOs to set up mutual schemes and build capacity.

Providing complete health coverage

Bajaj Allianz enhanced mutual health insurance offers complete health coverage for entire families. It includes subsidized medicine as well as concessions for in-patient and out-patient care. Pregnancies are covered and individuals remain eligible up to age 70. For

“The innovative mutual health model helps us to control costs and families to manage health risks better.”

Michael Anthony,
Head of Microinsurance, Allianz SE

a premium of €6.30 per year for a family of four, the product covers expenditures of up to €150. Of the premium collected, two thirds remain within the group to deal with standard claims, and one third goes to Bajaj Allianz.

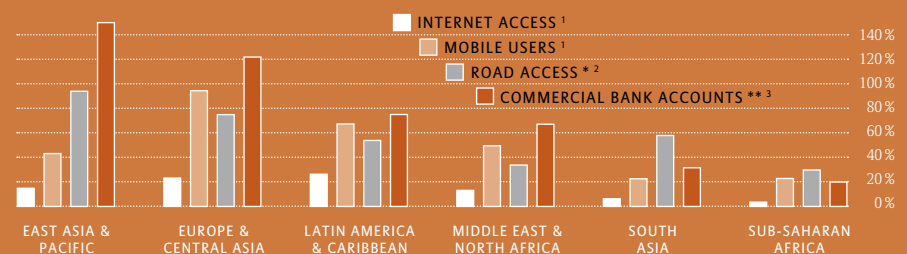
The product was piloted in Tamil Nadu in December 2007. One of the local partners is Kodi Trust, an NGO offering microfinance services in several coastal villages of Kanyakumari District. Local NGO partners have helped communities set up committees to administer the scheme, educate members and negotiate special deals with health care providers. By the end of 2008, the model had spread to three districts. By February 2010, 3,100 families in 60 communities benefited from health insurance.

Smart design controls cost

“The innovative mutual health model helps us to control costs and families to manage health risks better,” explains Michael Anthony, Head of Microinsurance at Allianz SE. Most of the day-to-day operations in the health mutual are mana-

No road, no phone – Infrastructure in low-income markets

Interactions with low-income people can be complicated because they are often roughly connected. Some don't even have access to a paved road. Many live in a cash economy. While still low, internet and mobile phone penetration are increasing fast and will become ever more important in reaching the target group.



Sources: ¹World Bank (2007) <http://devdata.worldbank.org/data-query/> ²World Bank (2006) Rural Access Index ³CGAP (2009) www.cgap.org/pl/site/c/financialindicators

* Percentage of rural people who live within 2 km of an all-season road as a proportion of the total rural population.
** median of country averages



Photo: Christina Grad

Families camp in the lobby of a hospital in Delhi to take care of their loved ones.



Photo: Rustam Sengupta

Village women are attending a self-help group meeting.

ged by the self-help groups themselves: they collect the premiums during their meetings and settle claims. R. N. Mohanty, Chief Operating Officer of CARE India, looks back on their efforts in 2009: “After one year, we have seen that 80 to 90 percent of cases can be dealt with at the community level. It works very well and now we are trying to expand this model to other districts.”

The enhanced mutual health insurance model also deals successfully with a number of incentive issues that typically challenge health insurance. One is adverse selection: those who are more likely to need help are more likely to join. The model avoids adverse selection by admitting only direct referrals of existing members, who have an interest in the sustainability of the scheme, and

only complete families. Another challenge is moral hazard: the chance that people will incur higher costs because they are insured. Here, trusted doctors act as gatekeepers, referring patients as necessary to specified hospitals with agreed-upon prices. Health education is also used to encourage people to prevent health problems. A third and final challenge is the risk of fraud, which Bajaj Allianz has found that social control mitigates quite effectively. Put simply, you don’t cheat on your neighbor.

Health insurance – but also health care?

Health insurance is worth little without doctors, nurses and pharmacists. “Lack of medical infrastructure is one of the key challenges we face,” agrees R. N. Mohanty. “Fortunately, Tamil Nadu, where our project started, is a state where the

medical infrastructure is manageable.” The landscape is quite different in other states in India. Most people have to travel as far as 100 kilometers to city hospitals. Nearby general medical services are often poorly equipped with staff and medicine. It is not uncommon to have to pay bribes in public facilities that are supposedly free of charge. Health microinsurance won’t change these shortcomings by itself. But it gives people access to available health care services and a greater, collective voice in choosing and evaluating these services.




[Watch the video on self-help groups in India](#)



PARTNER SPOTLIGHT

United Nations Development Programme

(UNDP)  is the UN’s global development network present in 166 countries. UNDP works with the private sector to harness the transformative power of market forces for the benefit of disadvantaged people globally.

In 2005, UNDP partnered with Allianz and GTZ to assess the demand for microinsurance in India, Indonesia and Laos.

In another study in India in 2007, UNDP put the market potential for microinsurance at 1.9 billion dollars. Anuradha K. Rajivan, leader of the study team, summarizes her research: “Catalyzing microinsurance can result in a win-win situation, combining commercial profit with the social benefits of combating poverty through systematic risk management among the rural poor.”

Building partner capacity

NGOs, MFIs, rural banks, post offices and retailers are some of the organizations that deliver microinsurance today. They all have one thing in common: insurance is not their core business and their staff need to learn how to sell and support these products. In India, CARE found that thorough training and coaching were essential. CARE summarizes what worked:

Planning

CARE asked NGOs what they expected of the training beforehand, and adjusted the agenda accordingly.

Flexibility

From the CEO to the coordinator and the field staff, everybody involved in the initiative received training. Rather than prescribing approaches, training and especially follow-up meetings provided a platform to discover solutions together. After all, partners have to fit processes into their existing operations.

Tools

Reference materials like checklists and product documentation greatly support the partner's outreach work. Effective communication formats, from storytelling for group meetings to mass awareness-raising events, were also shared among partners.

CARE's primary insight: partner capacity-building is not a one-way street but a collaborative exercise, where both sides have to learn continuously.

Photo: CARE / Sandra Bulling



CARE project manager R. Devaprakash.

Civil society at your service – Delivering microinsurance

Commercial microinsurance providers typically rely on others to deliver their products in the slums and villages. Collecting premiums and settling claims requires a lot of customer interaction and relies on efficient channels to keep administrative costs low.

The partner-agent model

While commercial insurers share the market with NGOs on the insurer side, they barely play a role on the delivery side. NGOs, community-based organizations (CBOs), mutuals and MFIs reach more than two thirds of covered lives. The partner-agent model combines the financial and risk management know-how of the commercial insurer with the capability of these organizations to reach out to low-income households.

The ideal delivery channel has trusted relationships with a large number of people with whom it is already engaging in financial transactions. While MFIs are a natural choice, on their own they reach only a fraction of the potential market: in 2006, only 150 million people had access to microcredit. Other channels like post offices and retail shops are currently being explored.

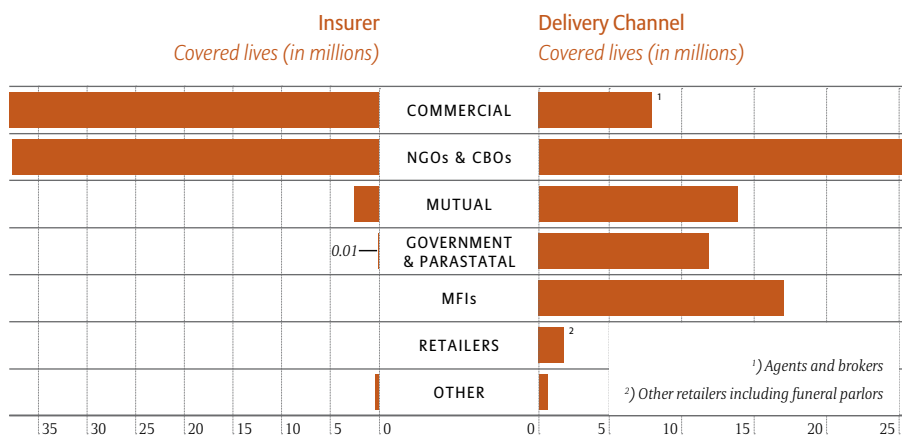
Collecting premiums

Premium collection has to strike a balance between convenience and cost. Credit-linked insurance is easy: premiums can be linked to loans at virtually no extra cost. Automatic bank deductions are also easy, but only 30 percent of people in South Asia and 20 percent in Sub-Saharan Africa have bank accounts. In-person premium collection improves customer contact, but it is expensive. As a result, it is common practice for delivery organizations to collect premiums during existing meetings.

Settling claims

Insurance proves its value when claims are due. Claims handling procedures have to be simple and fast with efficient fraud control systems. Documentation should be as simple as possible. Customers often find it difficult to fill in forms or to obtain official reports like death certificates. Some insurers accept certificates from local police or village chiefs for life insurance claims.

Co-payments, deductions and waiting periods until the first claim can be made reduce cheating. The closer to the customer, the faster the claims handling process and the more effective the fraud control.



Source: Microinsurance Centre (2007) Landscape Study

Cow control – Technology prevents fraud

"We acknowledge the strong need of farmers to insure their cattle. Small farmers only have one cow and are heavily dependent on their milk production," explains Dr. Ashok Patil, head of rural business at Bajaj Allianz. "But for insurers it has been a loss-making business to insure cows because too often did farmers claim an insurance loss that was not theirs. Market experts assumed that a quarter of all claims were fraudulent. Furthermore, it was a costly affair to send an insurance assessor a long way to a farm to see if a cow really died, let alone to find out if it was that cow that was insured." Ear tags had previously been used to identify insured cows and buffalos, but without great success. As Craig Churchill notes: "There must be a lot of cows without ears in India."

Now, technology may prevent fraud. Radio Frequency Identification (RFID) chips are injected under the cattle's skin. In case of death, a veterinarian examines the cattle to determine the cause. During the examination the vet also scans the chip with a reader. This information is submitted to the insurance company together with the claim and a photograph of the reader while scanning the chip. Dr. Patil is optimistic: "We have just started using this technology in a controlled pilot project and hope to turn insuring the cattle of low-income farmers into a profitable business."

Photo: Martin Herndorf



"Technology to process transactions in the field is the key"



Photo: Martin Herndorf

Craig Churchill talked with us about the role of technology for the delivery of microinsurance. He heads the [Microinsurance Innovation Facility](#). The Facility was launched in 2008 with support of the Bill & Melinda Gates Foundation and is housed at the International Labour Organization. The facility provides innovation grants and technical assistance for the development of microinsurance.

What role can technology play in the future development of microinsurance?

I guess the jury is still out, but there are big hopes that technology will be able to play a significant role. One crucial need is information processing: storing huge volumes of data and managing it effectively. The key here is technology to process transactions in the field, for example by using handheld devices. Moreover, data needs to be exchanged consistently across all players involved – customers, health service suppliers, microinsurance units, insurers and reinsurers.

Which local infrastructure is needed to make technology work?

There is a lot of enthusiasm about technology, but the two issues that come up again and again are connectivity and electricity supply. Internet and cell phone access could be a great opportunity. But coverage is low in many rural areas, so how do you deal with that? And then the power cuts: you are typing in something and the electricity goes out. As solutions, one could use solar cells, or cut up the information into smaller pieces for using SMS instead of worrying about the internet. Hopefully we will see some large-scale successes here in the future, but it is still early days now.

Does it require organizations to develop new skills?

It's a big change for insurers. If insurers can manage huge numbers of people, they can make a profit, as long as they can cover their fixed costs. But while insurance companies are great at managing data, they are used to fewer numbers of customers. Also, in low-income markets you have to reduce the number of forms and digitalize data to process it efficiently. Innovations like that are not only relevant for the low-income market. There is no reason why these same processes couldn't work at the upper end of the market.

What role could multinational companies play?

Multinational companies operate in many different markets, and can experiment in these to see what works and move it around. That is the real strength. The challenge is to allow innovations at the front end – are people allowed to experiment? And if they are allowed to experiment, do they have mechanisms to take the lessons from one place to another?

4 SALES

A monthly meeting at one of the village banks established by CAURIE in rural Senegal.

Photo: www.fellowshipblog.kiva.org

How can we convince our customers?

- **Explaining** the concept and benefits of formal risk-sharing is at the heart of all sales efforts.
- Marketing messages and channels have to **reflect local circumstances**.
- **Building capacity** among the outreach staff of partner organizations is required to provide good service.
- Market creation usually **starts with simple products** like credit life to establish a basic familiarity with the concept of insurance.
- **Interaction with customers** enables insurers to create higher-value products over time.

Brand-new value – Building markets in Africa

In rural Africa, before Allianz can market its products, it has to market the concept of insurance – as most customers have never heard of this service before.

In 1997, Allianz took a majority stake in the French insurer AGF, present in 10 African countries. In 2007, the company was fully integrated and Allianz started to rebrand its services. Walking through Dakar, the capital of Senegal, posters announce the company's "new name" at every step: downtown, where the government buildings are; at the sea front, with its brand-new hotels; and in the north, with its upper-class neighborhoods. Many of the posters show the beautiful colonial building where Allianz has its offices. The building is well known to Allianz existing customers in the country, mainly businesses, better-off families and individuals.

Worlds apart

In the countryside, the capital and its modern infrastructure are far away. Here, most people have never heard of Allianz. Many don't know about insurance at all. 60 percent of Senegal's 12.8 million people live on less than two dollars per day. Only 300,000 of them are co-

vered by health insurance and 100,000 by credit life, according to a study by the Microinsurance Innovation Facility. People in the villages and small towns rarely go to the capital, and Allianz rich colonial building has little to do with their reality.

A pan-African partner

To reach out to this new market, Allianz looked for partners with established networks in rural areas. It teamed up with PlaNet Guarantee, an international organization that promotes microinsurance across Africa. PlaNet Guarantee has brokered nine partnerships for Allianz in different African countries. Partners are MFIs that now secure their credits with standard credit life insurance.

CAURIE is Allianz partner in Senegal. The organization provides credit to 21,000 women in 275 village banks. Within each village bank, the women split up into solidarity groups of between three and 10 women. Once they ►

In the countryside, most people have never heard of Allianz or insurance at all.

Posters announce the new brand "Allianz" in Dakar, the capital of Senegal.



Photo: Martin Herndorf



Photo: Mathieu Dubreuil

A woman from Senegal joins a microinsurance literacy campaign conducted by the MFI CAURIE.



Photo: www.fellowship.kiva.org

A CAURIE customer with her child and investments, a herd of goats.

are organized, CAURIE's loan officers show them how to collect savings and provide credit. Members stand in for each others' loans – one of the reasons CAURIE's loan default rate to date is zero. To avoid the burden the death of a member can put on the whole group, the MFI added the compulsory credit life insurance to its product.

A cascade of trust

With this new service, CAURIE's loan officers had to learn how to explain microinsurance. They found that the benefit of insurance is much harder to get across than the benefit of credit, because customers pay up-front for a payout in case of a specific event in the future – for example when the insured dies. If that event does not happen, there is no benefit.

Moreover, customers have to trust that the insurer will keep its promise. Formal contracts are worth little in villages where people often do not have addresses, maybe not even identity cards, do not know their rights and could not enforce them even if they did. Here, Allianz works in a “cascade of trust”: Allianz relies on PlaNet Guarantee's knowledge of local MFIs and ability to manage microinsurance. PlaNet Guarantee trusts the reliability of Allianz. CAURIE trusts the advice of PlaNet Guarantee, the loan officers trust CAURIE, and the women in the village banks trust their loan officers.

Information about insurance, and Allianz products in particular, is handed down this cascade. PlaNet Guarantee has created a whole set of education-

nal materials, from handbooks for loan officers to illustrative posters for women's solidarity groups. All loan officers are trained on the features of the product, how to explain them in simple terms, and how to articulate their benefits – including payout in case of a claim.

Listening to customers

But the conversation with customers does not stop when contracts are signed. To provide even better service in the future, PlaNet Guarantee and Allianz have started dialogues with 300 micro-credit clients through local NGOs. Customers help loan officers better understand their needs beyond individual life insurance – like coverage for the death of a family member and the associated funeral costs or health expenses. This

Islamic insurance – Responding to religious needs

Insurance, in its Western form, is often seen as conflicting with Sharia law. According to some Islamic scholars, the chance element in insurance resembles gambling and taking interest is shunned as usury by the Quran. *Takaful* is a system of insurance in conformity with Islamic law that has been used for hundreds of years. Essentially, it works like mutual insurance, whe-

re participants stand in for the losses of others. Premiums from Islamic insurance may not be invested in sectors such as gambling, pornography, and alcohol.

Allianz introduced a *takaful* product in Indonesia in 2006. Kiswati Soeryko, Director of Sharia Allianz Life Indonesia, explains: “*Takaful* will not be the panacea for low insurance penetration

in Indonesia. However, more and more banks and other financial institutions operate on a Sharia basis. With Sharia insurance and micro-insurance, we can serve this potential market, which is growing steadily.”

Watch the video on Islamic insurance in Indonesia 



Photo: Martin Herrndorf

CAURIE field officers in front of their schedule for visiting the village banks.



Photo: Mathieu Dubreuil

Allianz Partner CAURIE conducts an awareness campaign among members of a village bank.

information helps Allianz develop new products that will create additional value for these customers.

In Senegal, Allianz will add a livelihood component to its life insurance product. The insurance will pay out a fixed sum for each day a borrower is unable to work, to cover lost income. While not yet a full-blown health insurance, the daily allowance is large enough to cover smaller medical expenses.

Opportunities across Africa

Together with PlaNet Guarantee, Allianz has initiated similar processes in other African countries, including Côte d'Ivoire, Cameroon and Madagascar. As of September 2009, the partners had covered more than 53,000 credit-takers and insured a sum of more than nine million

Only 2.6 percent
of those living
under two
dollars per day
are covered
by insurance
in Africa.

euros in loans. Other products are being developed. For example, in Côte d'Ivoire, Allianz partnered with UNACOOPEC to provide funeral insurance. Launched in November 2009, the cooperative had sold 5,000 policies by early 2010, showing that clients value the offer. The space for growth is wide open: The Microinsurance Innovation Facility identified 14.7 million people in 32 African countries covered by insurance – a mere 2.6 percent of those living under two dollars per day on the African continent.

People often learn about insurance for the first time with simple products like credit life. This in turn creates demand for more and better products. These products require more elaborate customer education by experienced staff. Market creation is a learning process for all involved.



PARTNER SPOTLIGHT

PlaNet Guarantee  is dedicated to the promotion and development of microinsurance. The organization provides expertise in microinsurance projects and manages and controls microinsurance schemes, often in cooperation with MFIs. As a part of the PlaNet Finance Group, it builds on the experience and relationships that PlaNet Finance has acquired through 12 years of collaboration with MFIs globally on capacity-building and rating.

Allianz cooperates with PlaNet Guarantee in a number of countries across Africa, where the organization manages acquisition and training of local sales channels. Delphine Bazalgette, PlaNet Finance Germany, stresses that "it is very important for us to work with private insurers and re-insurers to develop and spread standardized microinsurance products across countries."

The ACB of marketing microinsurance

Marketing insurance to low-income people means educating them about the concept and benefits first. Many have not heard of insurance before. Those who have had contact with it often have negative attitudes due to bad experiences in the past. Demand can only be created step by step.

Awareness

First, customers need to get a sense of the benefits of insurance. Protection, a trusted partner in times of need, and a better future for oneself and one's children are often the key messages used on posters or in mass media like newspapers and the radio. Mass awareness campaigns like those organized by CARE in India (see box on right) are very effective since they also integrate the next two steps.

Comprehension

To make proper use of it, customers need to fully understand the product, starting from a perception of the risks they face. This is best achieved through direct interaction with customers in group meetings or individual consultations where questions can be clarified

and comprehension tested. Explanatory posters, illustrations, role play, songs and theater can support the education process.

Buy

When a customer signs a policy, sales staff have to make sure he or she fully understands the cost and coverage. Policyholders will be dissatisfied if they misunderstand the claims conditions or expect a return after the policy ends. Balanced incentives are important to ensure that staff does not oversell. Moderate sales targets and rewards for re-enrollment motivate staff to put the interests of their customers first.

Indeed, marketing does not stop with the sale – it begins there. Only when people see that insurance helps them, through quick and unbureaucratic payouts, will they be prepared to spend some of their small budgets on it. Customer satisfaction surveys during re-enrollment campaigns help to identify areas for improvement. Like in any market, good service and satisfied customers who spread the word are the best marketing.

Explaining insurance Bollywood-style

In front of an improvised stage in rural India, women watch amused as a drama unfolds: a couple from a lower caste gets up in the morning, the husband goes to work, the wife to the local self-help group. In the play, the women discuss whether they should buy micro-insurance and whether they should tell their men about it. The wife buys a policy but decides not to tell her husband. After all, she is in charge of the financial resources at home. When the husband comes home drunk he hits his wife and asks her why she spent so much time at the self-help group. The audience, around a hundred women sitting on the floor, laughs out loud: the scene seems all too familiar. In the next scene, the husband loses his leg in an accident. The couple is depressed – he won't be able to work anymore. But then, the wife proudly presents the insurance policy. They hug. Happy ending. Thunderous applause.

This scene takes place at the beginning of a mass awareness-raising campaign for Bajaj Allianz and CARE's microinsurance offer. Local NGOs invite members of women's self-help groups via posters and word-of-mouth to learn how to manage risks better. The program takes place in the afternoon and lasts for two hours. Sketches like the one described above, puppet theater and presentations explain the principles and benefits of insurance. After the show, women can sign up to a policy. They can also get further information from field officers visiting the local self-help group. CARE reports that 90 percent of clients have not heard of insurance before. But, as CARE Project Manager R. Devaprakash notes: "It is said that if you convince the women, you can convince the whole village."



Photo: Rustam Sengupta

Educational materials like posters and drawings create awareness about the risks people face and how insurance can help to deal with them.

கேர் இந்தியா
ஆயுள் மற்றும் வறுமையுடன் கைவிட்டு தப்பும்
உயிர் காக்கும் உறுதியான கைப்பிடிப்பு

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தயவுசெய்து தொடர்பு கொள்ளுங்கள்
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உயிர் காக்கும் உறுதியான கைப்பிடிப்பு
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BAJAJ Allianz

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Photo: Rustam Sengupta

“It’s a whole journey for a household from awareness to action”

Photo © Rupalee Ruchismita



Rupalee Ruchismita talked with us about consumer education and the different tasks and actors within this space. She is the Executive Director of the Center for Insurance and Risk Management at the Institute for Financial Management and Research (IFMR) in Chennai, India. The Center focuses on product design and research, advocacy and market-making in the space of microinsurance.

What are the challenges in microinsurance consumer education?

We are scratching the surface of the potential market for microinsurance. Consumer education should really aim at behavior change and induce greater market creation. Today, households use informal risk hedging mechanisms like their caste or occupational groups and institutions like marriage to manage risk. The important question is: “How do we encourage them to use formal risk transfer products?”

Insurance literacy efforts should be undertaken at three levels: General risk communication, risk management capability-building, and finally information about specific insurance products. We need to unpack the challenge to identify who is best placed to undertake what parts of the education process.

Where are the gaps in insurance literacy today?

The gap is on the first level: clarifying the range of risks a household is exposed to and identifying where insurance is the ideal solution. Currently, with limited product innovation, there is a substantial amount of mis-selling, leading to poor re-enrollments. While microinsurance players do explain their own products, we rarely see investment in general risk communication which would assist the household in answering the critical question, “How much insurance – of what type – do I need?”

Who should be responsible for risk communication?

General awareness about insurance is a public good. The state and regulator or a multinational agency should invest in creating this market. In Colombia, all insurers have come together via the industry association FASECOLDA to invest in risk awareness because they perceive low-income households as a future market. The state could encourage such investment through tax relief and similar incentives to insurers.

Are you aware of good examples of risk communication?

In Kenya, Farm Radio provides rural households with information related to farming. Microfinance Opportunities, a resource center that promotes client-led microfinance, has embedded education about microinsurance in the program. Insurance literacy will be more effective in reaching its target group when it is packaged with broader education programs.

In Brazil, insurance companies do the education and the regulator makes sure there is no product-specific marketing. The regulator prescribes the message and format for risk communication. It also defines how contracts should appear in terms of level of detail and degree of fine print, given clients are often almost illiterate. This ensures consumer protection, a critical aspect often ignored in many developing markets.

Who should do the capacity-building in financial literacy?

People need to learn to differentiate between types of risks and to respond to the risks to which they are exposed with different products: savings, credit or insurance. Institutions they are already dealing with are best placed to provide this capacity-building, because it requires systematic engagement and personal relationships. Engagement could be weekly in a microfinance group or monthly with a user group or cooperative. Building on existing channels helps to reduce cost and create greater trust.

What are some interesting channels for product marketing?

A lot of agencies in India and East Africa have started to use video in which households themselves talk about their lives and their needs for risk management. These videos are very hard-hitting, because you get the message from your neighbor or somebody from the next village with whom you easily identify. In South Africa, mobile phones are used as a low-cost channel. When a mobile owner tops up with a pre-paid card, an update is sent together with a microinsurance message.

What does it take to achieve behavior change?

In a recent study undertaken at IFMR we found that behavior change is affected more by trust in the intermediary than by consumer education. But that does not imply that people are buying the right kinds of products. Consumer education takes time: it’s a whole journey for a household from awareness to action. We have not seen systematic, long-term consumer literacy campaigns in insurance happen. So far there are only experiments.



Dairy farmers deliver their milk to their cooperative. 14 million farmers are organized in dairy cooperatives in India.

Photo: P. Maricar / World Bank

5 GROWTH

How can we be profitable and gain scale?

- The 78 million microinsurance customers worldwide (in 2006) represent only **a small part of the potential market**.
- Microinsurance can only be profitable when **large numbers of policies** are sold because of the tiny margins per policy.
- Simple, standardized products and efficient processes keep **transaction costs** low.
- Working with a variety of **delivery channels** helps to create a solid customer portfolio.

Cash Cows – Expanding the market with dairy federations

When Allianz got started with microinsurance, it partnered mainly with MFIs as delivery channels. Lately, the insurer has expanded through other channels like dairy cooperatives in India.

“The challenge is scaling up the model while reducing costs.”

Kamesh Goyal,
CEO,
Bajaj Allianz

About 70 percent of India's 1.2 billion people live in rural areas, but Bajaj Allianz business is 90 percent urban. Clearly, there is space to grow. To reach out to these customers, Bajaj Allianz uses large, efficient delivery channels that already exist. Kamesh Goyal, CEO of Bajaj Allianz, explains: “Fifty percent of India's population lacks access to any financial products. We would like to emerge as the biggest player in this segment. The challenge is scaling up the model while reducing costs.”

Lessons from the fast food industry

Working with SKS Microfinance brought scale to Allianz microinsurance business in India. SKS is the fastest-growing MFI in the world and the largest in India. It presently provides financial services to over 5.3 million customers in some of the remotest parts of the country. 345 district centers, 1,676 village offices, and

more than 17,000 staff members cater to their customers' needs. To enable its rapid growth, SKS borrowed ideas from fast-scaling consumer businesses like fast food chains: standardizing its products, developing customer-centric processes and adopting factory-style training modules. Adding nearly 50 rural branches and 300,000 members a month, SKS offers Allianz a large and growing customer base.

In April 2008, Bajaj Allianz and SKS launched *Swayam Shakti Suraksha*, a life insurance product with a savings component. With a premium of only €0.60 per week over a period of five years, customers receive €220 in case of natural death and €565 in case of accidental death. If unclaimed, the deposit is refunded with interest after five years. The simplicity of the product makes it easy to sell. After less than two years in operati-

Large numbers of potential customers attend an awareness raising event in Tamil Nadu.



Photo: Nicolai Teves



Photo: Nicola Tewe

A rice field in Tamil Nadu. 70 percent of India's 1.2 billion people live in rural areas.



Photo: Ray Within / World Bank

The Village Dairy Cooperative Society collects the milk from local farmers.

on, it already has over 2.5 million customers. SKS is a strong engine for growth, but it should not remain the only one.

New pastures for growth

To diversify its customer base, Bajaj Allianz looked for additional delivery channels to reach the rural population, and found them in India's dairy cooperatives. India's dairy cooperative movement was born in the town of Anand in the northern region of Gujarat. In 1946, farmers stood up against exploitation by milk traders and founded the Kaira Milk Producers Union. They began collecting and selling their milk directly to Bombay under their own brand name, Amul, cutting out the traders who had used their weak individual bargaining positions and the perishable nature of fresh milk to extract high margins. Other districts

copied the system, and in 1973, they established a common marketing federation at the state level. Impressed by their success, Prime Minister Shri Lal Bahadur Shastri asked to roll out the model all over India. Operation Flood was born.

Operation Flood has made India the world's largest producer of milk. Today, the dairy cooperative movement counts almost 14 million members in more than 133,000 village-level societies in 346 districts. In 2009, these cooperatives collected 110 million tons of milk, valued at € 30 billion, and production is still growing.

Building on top of a pyramid

Dairy farmers organize themselves in a three-tier structure: the Village Dairy Cooperative Society collects the milk and

brings it to the District Milk Union for processing. The State Cooperative Milk Federation is responsible for marketing all milk products. The experts at Bajaj Allianz realized this hierarchical structure was an excellent delivery channel for microinsurance, and developed a customized insurance and savings product. Since early 2010, the product has been sold in the northwestern state of Punjab to the almost 400,000 members of Punjab State Cooperative Milk Producers' Federation Limited (MILKFED). Mr. H.S. Grewal, General Manager, Ludhiana Milk Union said: "We are glad to be associated with Bajaj Allianz, as this will encourage the rural population of Punjab to better mobilize their savings, giving them an opportunity to participate in investments and secure their future financial requirements."

Literate low-income female – Indian customer profile

Bajaj Allianz and CARE's customer base is quite unusual for the insurance industry: almost all customers are women, most earn less than two dollars a day, and four out of five are using insurance for the first time. This picture is, of course, consistent with the project partners' mission to empower the most vulnerable groups in society through financial services.

99 %



ARE WOMEN

93 %



EARN LESS THAN \$2 PER DAY

80 %



ARE USING INSURANCE SERVICES FOR THE FIRST TIME

54 %



WORK IN AGRICULTURE

24 %



ARE ILLITERATE



Photo: Ray Wilitin / World Bank

The Village Dairy Cooperative brings the milk to the District Milk Union.



Photo: Ray Wilitin / World Bank

The District Milk Union controls quality and processes the milk.

Buying security with milk

Based on extensive research, Bajaj Allianz developed a very flexible and simple product available to all dairy farmers in a specific union. It consists of life insurance coupled with a savings component, helping policy owners to build assets over their lifetimes. The generic group policy can be customized by each union with regard to risk covers, premiums and payment terms, as well as benefits and conditions. The policyholder can surrender the plan with no penalty in case of financial contingencies after the fourth year. The plan is kept as simple as possible and a one-page form is all it takes to sign up. The claims process in the event the policyholder dies is also kept very simple, allowing for a quick payout to support the family.

The dairy unions take care of most of the intermediation. Their staff have received in-depth product training from Bajaj Allianz and can explain the product to farmers. They also collect premiums directly when milk payments are disbursed. As in the case of SKS, a standardized, simple product, effective training, and an efficient organization lay the foundations for the business line to grow. If the product works well in Punjab, other federations can adopt the model. Thus, the dairy cooperative movement may prove a fertile ground for growth.


The dairy cooperative movement counts almost 14 million members in more than 133,000 village-level societies.



[Watch the video on SKS in India](#)



PARTNER SPOTLIGHT

SKS Microfinance  was founded in 1998 to provide small loans to low-income women in rural India. The MFI currently has over 5.3 million borrowers spread across 345 districts of India. It is the fastest-growing MFI in the world with an annual growth rate of 188 percent.

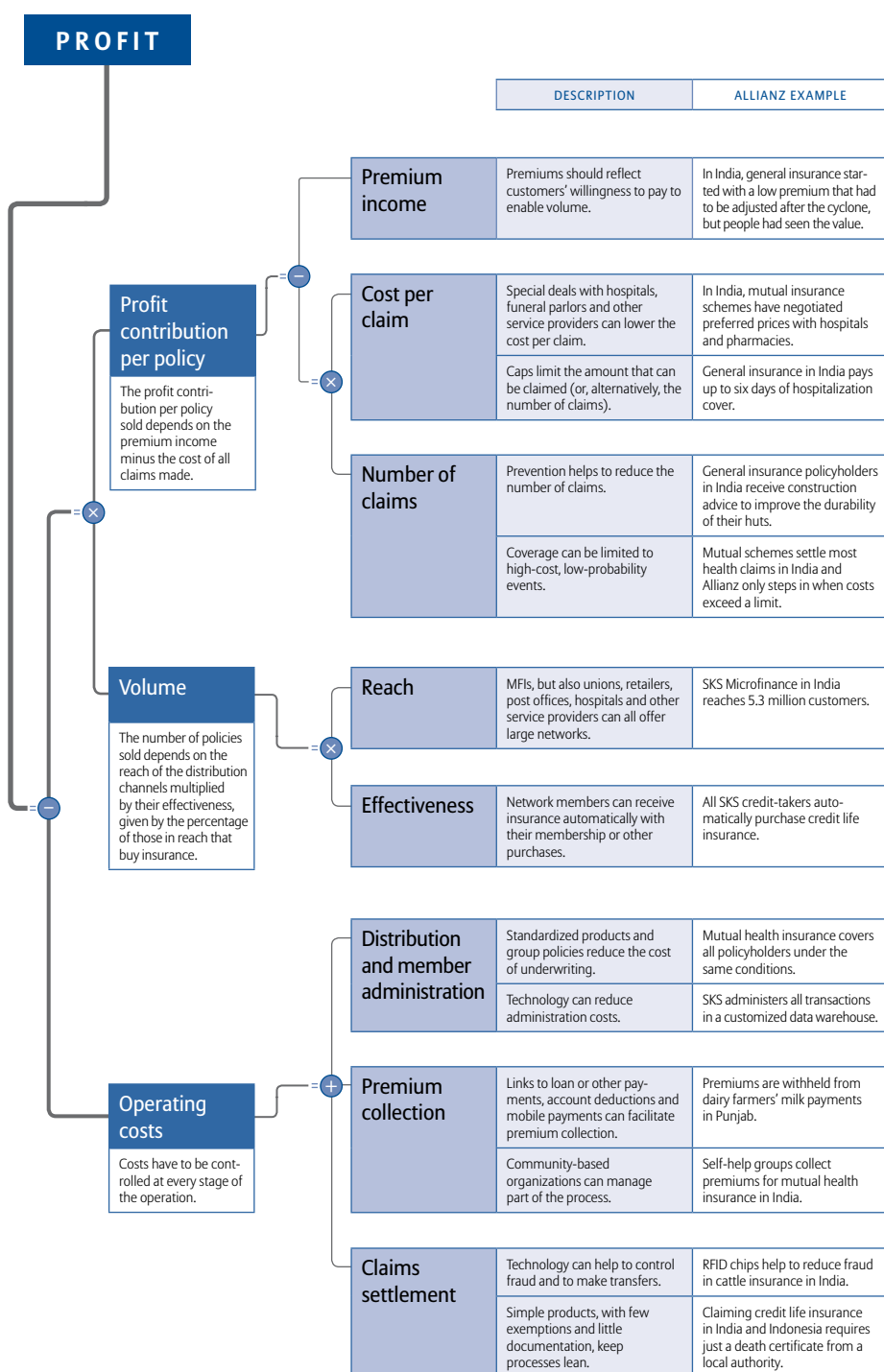
In April 2008, SKS and Bajaj Allianz partnered to offer a microinsurance product. In July 2009, Bajaj Allianz acquired a 2.5 percent stake in the company with

an investment of € 7.34 million. SKS founder Vikram Akula comments: "The investment by a mainstream investor such as Bajaj Allianz is a vote of confidence in SKS and in microfinance. Investment from a leading private insurer gives SKS greater stability and credibility, as well as a stronger capital base to extend our reach to serve more low-income customers."

Three keys to profitability

While some microinsurance schemes have reached significant scale, ensuring profitability is still a challenge. The diagram below shows the three factors that determine profitability: the profit contribution of each policy multiplied by the volume of policies

sold, minus operating costs. Microinsurance schemes must strive for efficiency within each of these factors and they have a number of levers at their disposal to do so. The diagram captures these levers and existing examples of how they are being used within Allianz.



Start slow, rise fast

Market penetration of other services in developing countries

It may take a while for good ideas to reach scale – but as soon as they gain a critical mass, the number of users can rise exponentially.

In 1997 only one percent of the population in developing countries used mobile phones; by 2007 this number had reached 45 percent. In the same period, use of the internet rose from less than one percent to 17 percent. Microcredits still reach only about 2.85 percent of people in the developing world, but have experienced steady growth over the last decade.

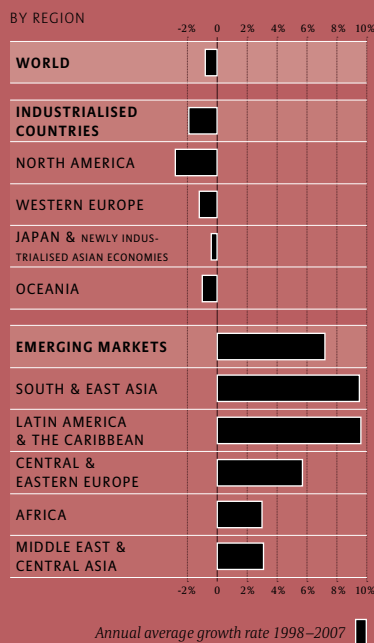


Sources: Microcredit Summit Campaign Report (2009), International Telecommunication Union

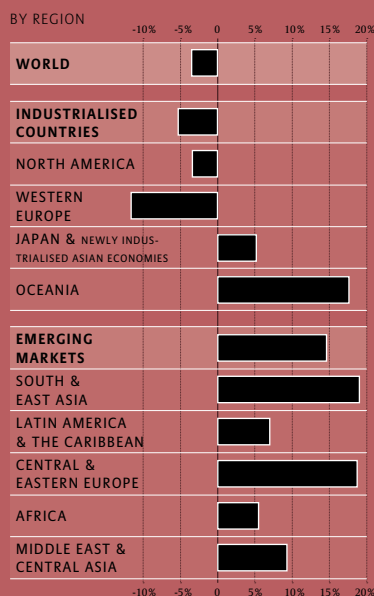
Emerging markets – Where growth happens

Between 1998 and 2007, the insurance business declined in developed markets, whereas premiums in emerging economies increased. Today, customers in these markets are mainly businesses and better-off households. But the trend is clear: growth will come primarily from developing countries.

NON-LIFE BUSINESS DEVELOPMENT



LIFE BUSINESS DEVELOPMENT



Source: Swiss Re, Sigma No. 3/2009

“It is an extremely long-term trend, and it will grow and grow”



Photo: Derek Clark

Jim Roth talked with us about the growth prospects of microinsurance and the role of investment. He is a principal at [LeapFrog Investments Ltd.](#), a private equity firm that invests in and supports microinsurance businesses.

Microinsurance is en vogue right now. Is it a fashion, or a long-term trend?

It is an extremely long-term trend, and it will grow and grow. Because insurance markets in developed countries are essentially saturated, growth in these markets can only come from taking market share away from competitors. The only real growth in insurance is in developing countries, and microinsurance is a crucial component of insurers' expansion into developing countries. Interest from insurers and re-insurers confirms this. The small-scale pilots, NGO-type projects and little businesses are going to fall very much by the wayside in a few years. We are really at the beginning of what is going to be a vast industry, driven largely by commercial insurers and re-insurers.

What do you see as promising approaches to increase the reach of microinsurance?

The use of agents and aggregators beyond MFIs is key. Religious institutions, cell phone networks and retailers are distribution networks that haven't been fully explored. I also think there are unrecognised opportunities in employers and payroll deductions.

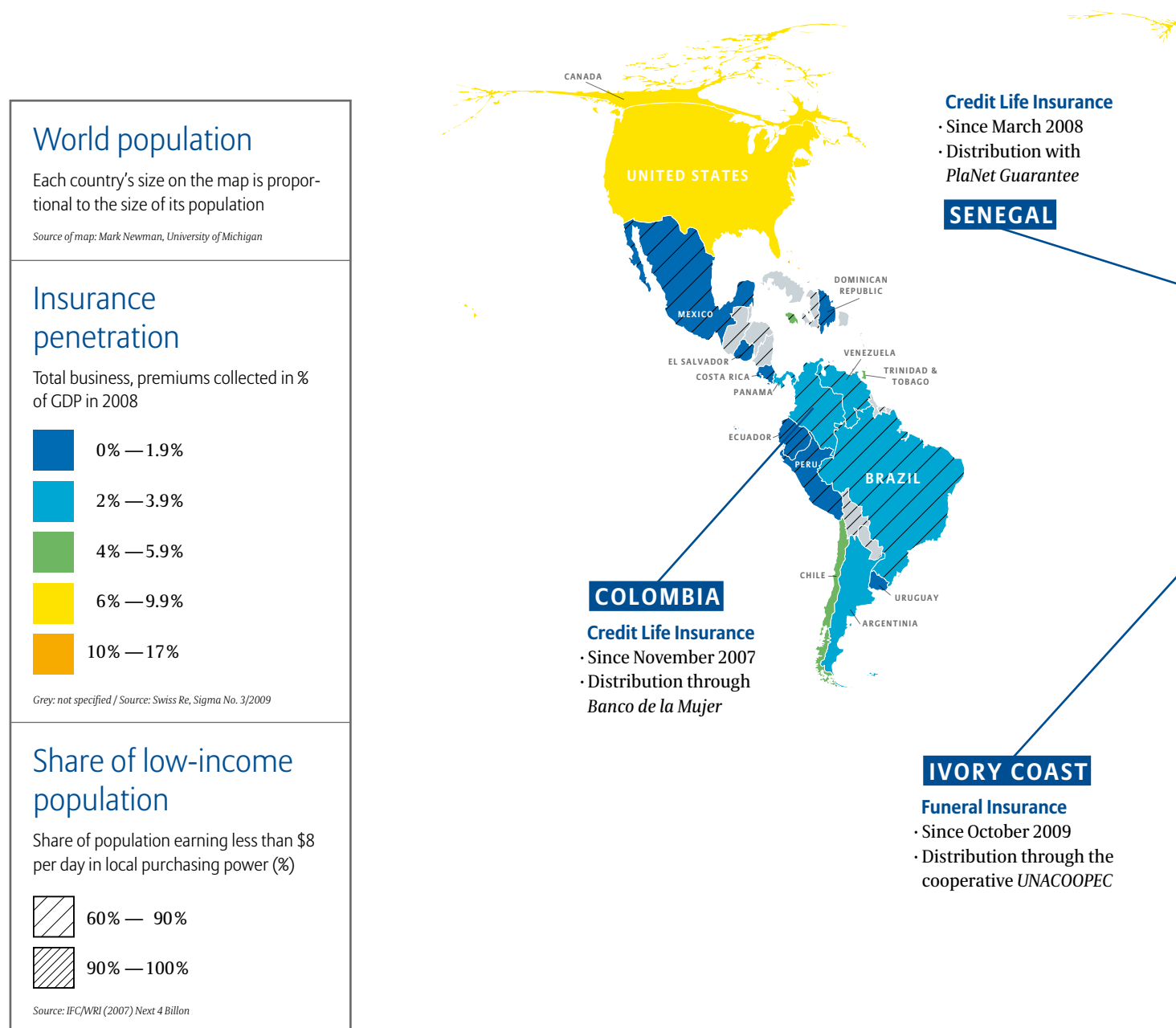
What is the role of financial capital for the growth of microinsurance?

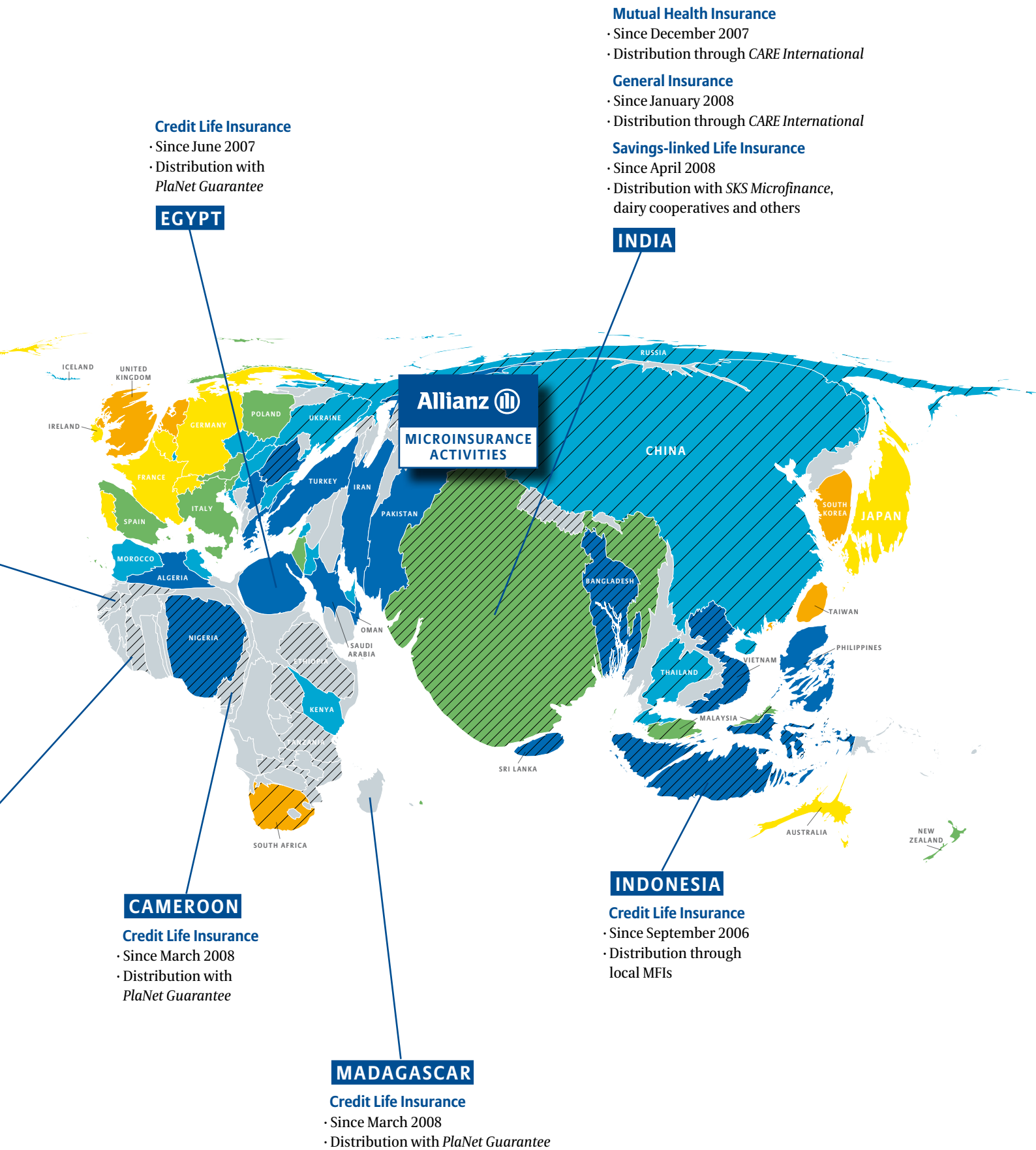
Without investments, the sector will not grow. A large number of local insurance businesses are severely capital-constrained. Many entrepreneurs and distributors have ideas about starting or expanding insurance businesses, and are also severely capital-constrained.

Larger firms may often employ their capital to develop markets that they know better. When they go into a new market in a developing country, they do what they did in the developed country – serve the middle class. So even within very large multinational companies, often very little capital is available for microinsurance today. No business can grow without money, and insurance is no different.

The world of microinsurance

The map shows the global landscape of insurance: In developing countries, where the majority of people lives on less than eight dollars per day, insurance penetration is low. Many of these countries have large populations which are growing at high rates. Reaching out to these potential customers can open up significant markets for insurance. Allianz is already present in eight developing countries with a variety of microinsurance products.





At the frontiers of microinsurance

Microinsurance has already achieved some success. But many questions remain to be answered. These questions are not trivial, and realizing the full potential of microinsurance will require the joint knowledge, creativity and energy of all parties involved in the sector.

IDEA

The impact frontier

- How can microinsurance enable users to take riskier but more productive investment decisions?
- How can microinsurance work effectively with public safety nets?
- How can microinsurance help people manage increasing risks from climate change?
- How can governments best support innovation and expansion in microinsurance?

DESIGN

The product frontier

- How can data availability on demand and risk profiles be improved on a large scale?
- How can we involve customers in the process of product design?
- What are sustainable business models for health and crop insurance, complex products that are in high demand?
- How can insurance be combined with prevention (like vaccination in health insurance)?
- How can we design holistic solutions that include better health systems, housing and infrastructure?

OPERATIONS

The technology frontier

- How can mobile phones be used to pay premiums, make claims and receive payments?
- How can smart cards and other identification systems help to avoid fraud and handle customer data efficiently?
- How can technology help to assess claims properly and settle them fast?
- How can IT increase the efficiency of back-and front-office administration?
- How can bundled products (like a building loan with property insurance) facilitate operations?

SALES

The education frontier

- How can insurance literacy be improved on a broad scale?
- How can delivery channel staff be educated and motivated to provide the best service?
- How can consumers be protected from fraud and over-selling?
- How can proper consumer information be ensured in channels like retail chains or the internet, without personal interaction?

GROWTH

The profitability frontier

- What are effective delivery channels, apart from MFIs, that can reach large numbers of customers?
- How can the cost of claims be controlled without reducing value to customers or complicating claims handling?
- How can the quality and efficiency of delivery channels be monitored and improved?
- How can products and processes be simplified and standardized to reduce cost?

Further Information

The previous pages provided a basic introduction to the challenges of microinsurance and how Allianz and others are dealing with them. For those who want to go deeper, the following sources of information will prove useful:



Allianz Knowledge Site

The site hosts a special chapter on microinsurance. It features case studies on Allianz own projects, interviews with experts, on-site videos as well as useful data.


<http://knowledge.allianz.com> 

Further Readings

Craig Churchill (ed.) (2006)

[Protecting the Poor: A Microinsurance Compendium](#) 
International Labor Organisation


Jonathan Morduch et al. (2009)

[Portfolios of the Poor: How the World's Poor Live on \\$2 a Day](#) 
Princeton University Press

Stefan Dercon and Martina Kirchberger (2008)

[Literature Review on Microinsurance](#)  
International Labor Organization

Allen Hammond et al. (2007)

[The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid](#) 
International Finance Corporation and World Resource Institute

Jim Roth, Michael J. McCord and Dominic Liber (2007)

[The Landscape of Microinsurance in the World's 100 Poorest Countries](#) 
The Microinsurance Centre

Useful Websites

CGAP Microfinance Gateway

www.microfinancegateway.org 

Microinsurance Network

www.microinsurancenet.org 

MixMarket Microfinance Information Exchange

www.mixmarket.org 

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(February 2010)

COVER PHOTOS

Top: Women in India paint their palms with henna to celebrate weddings and other festivals. The decoration expresses joy and optimism for a future without sorrows.

Microinsurance can contribute to the well-being and peace of mind of customers (Photo: © freenah/Fotolia).

Bottom: Women in Tamil Nadu learn about microinsurance in an awareness-raising event organized by Bajaj Allianz partner CARE and a local NGO

(Photo: © CARE International).

