



3rd AFRICAN MICROFINANCE CONFERENCE

New Options for Rural and Urban Africa
Kampala, Uganda
20 - 23 August 2007



Intermediation - the key challenge for Micro Insurance

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FinMark Trust



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- Independent trust formed in April 2002
- Initial funding from the UK's Department for International Development (DFID)
- Mission: “Making Financial Markets Work for the Poor” in Africa
- Facilitating and catalysing the next generation of development around access to financial services.
- Member of the CGAP Working Group on Micro Insurance
- Further information available at:
www.FinMarkTrust.org.za

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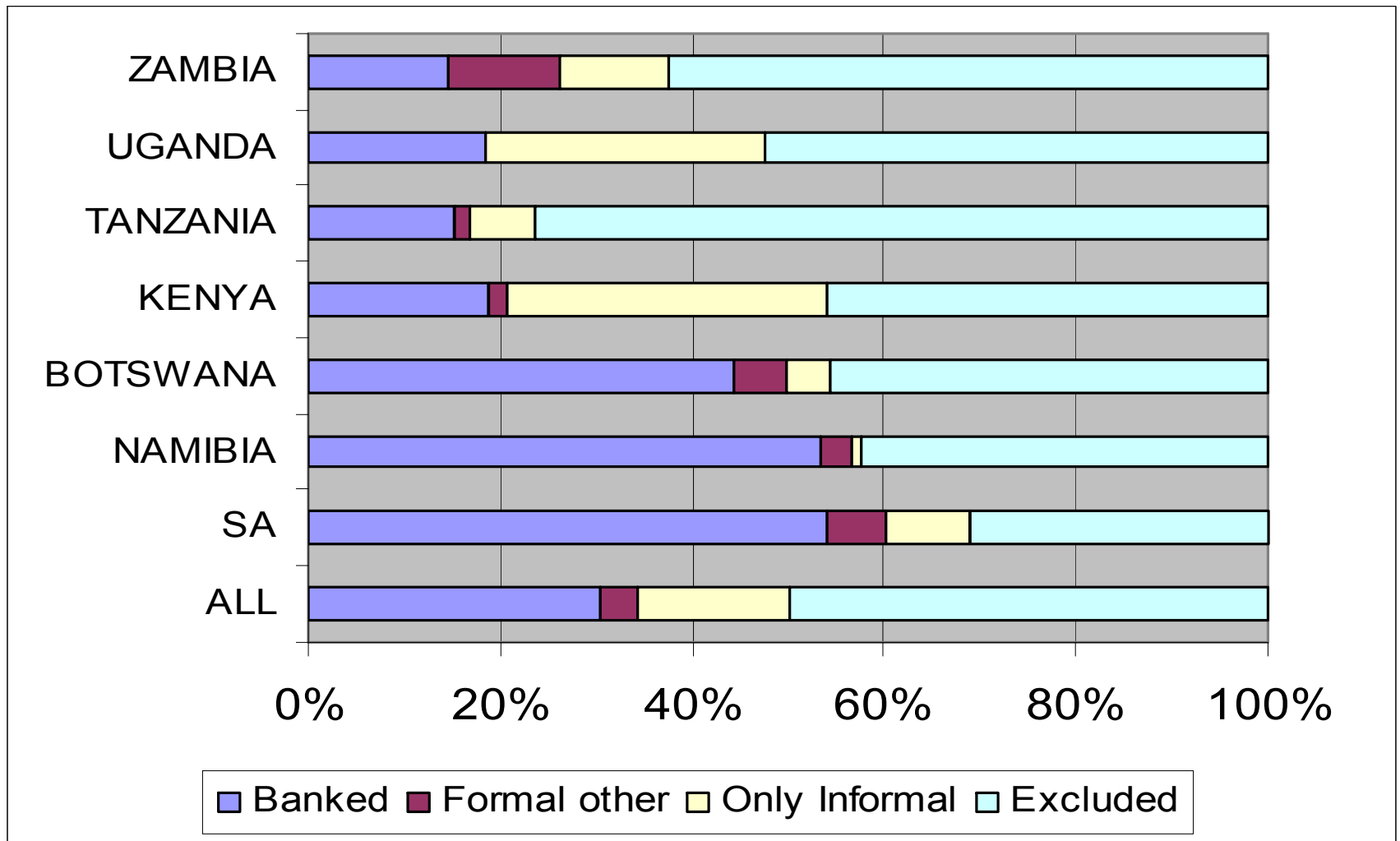


- Demand side
- Insurance value chain
- [Regulatory context – on CD only]
- Emerging intermediary typology
- Conclusions



Demand Side

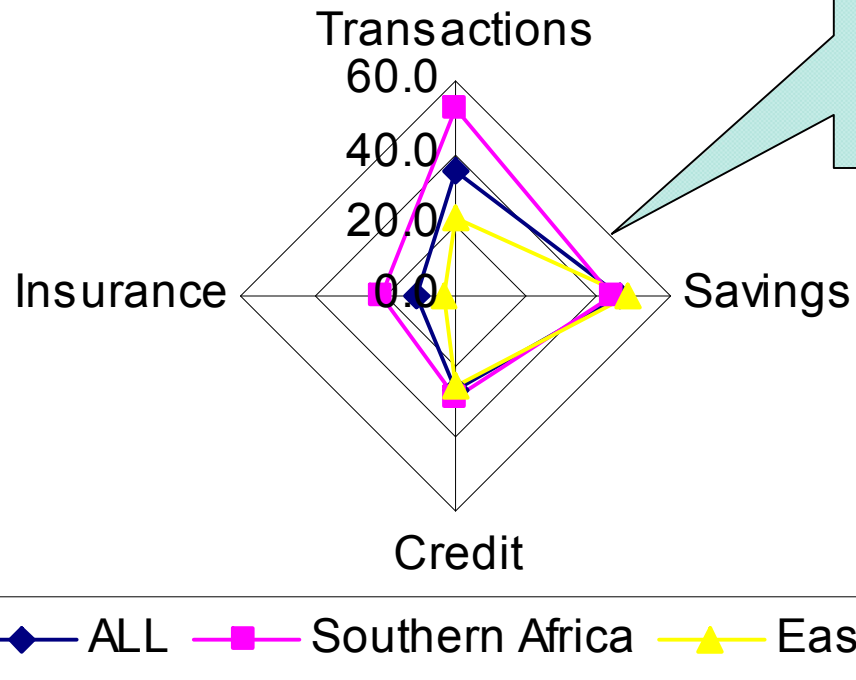




Access strands in Africa



Landscape of access



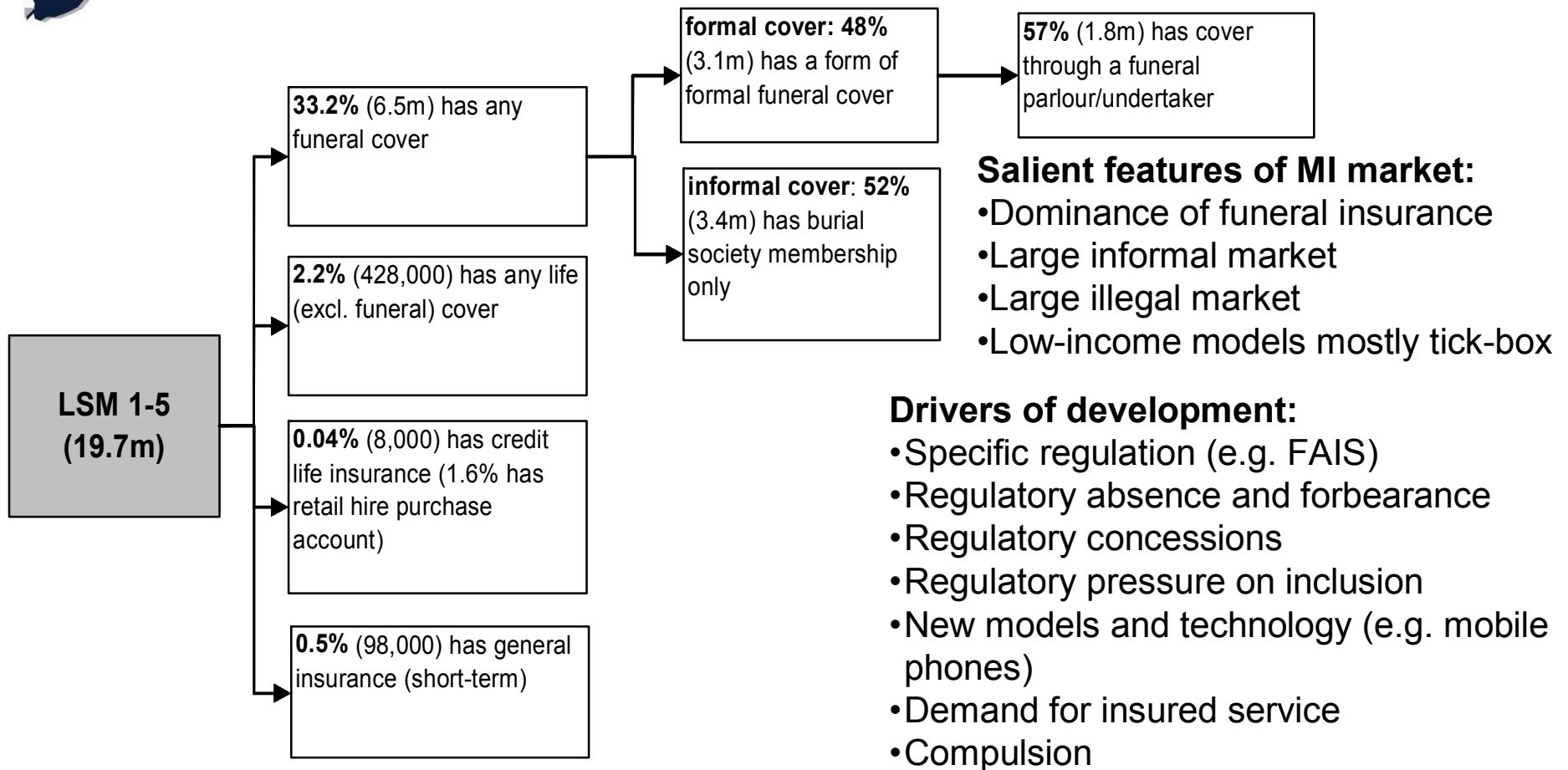
Relatively high usage of savings products, in line with CGAP review of microfinance in Africa (2005)

% using at least one product in each category

Note: credit likely undercounted; and transactions includes sending remittances



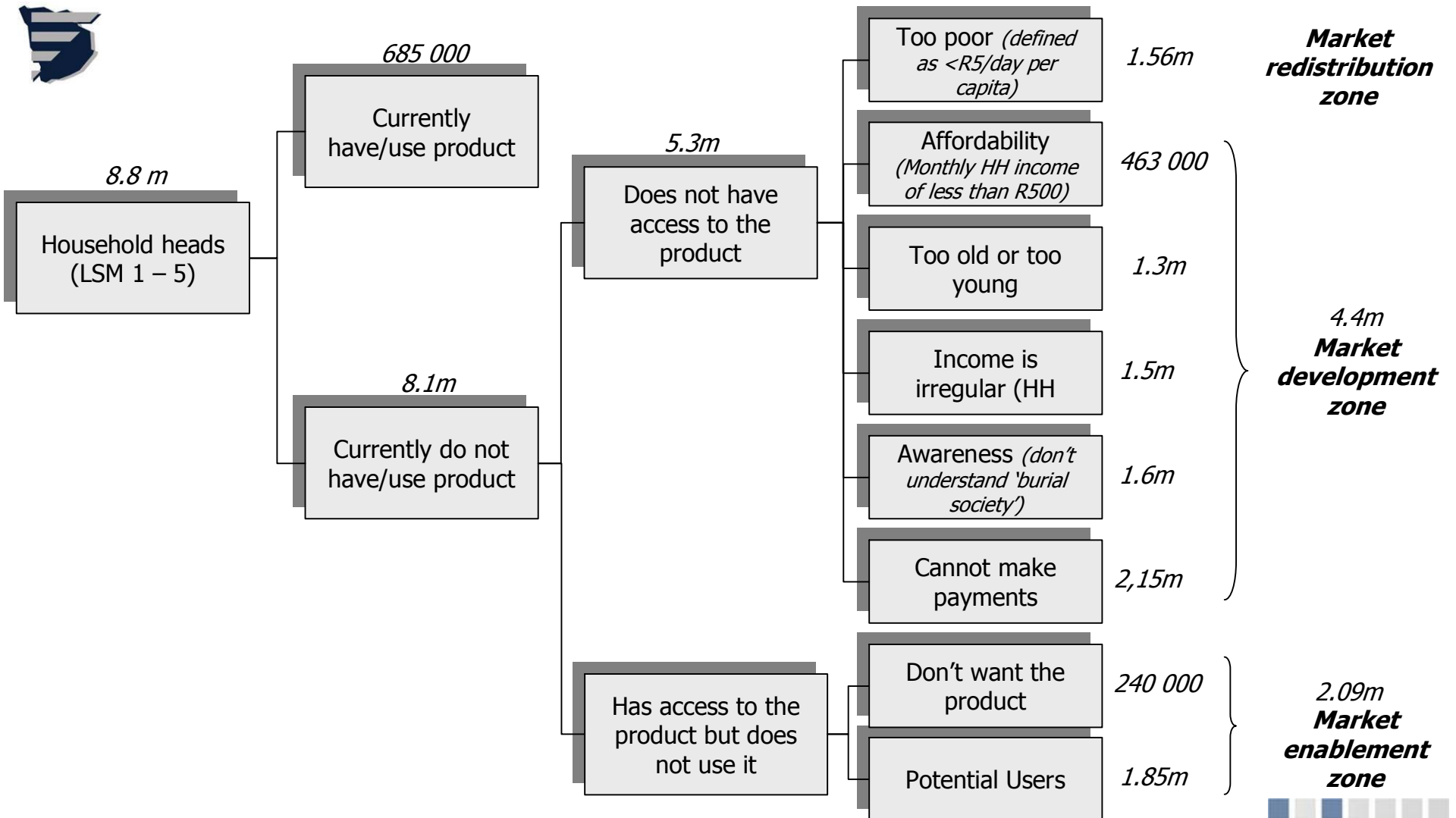
Landscapes of access compared



Source: Genesis, FinScope



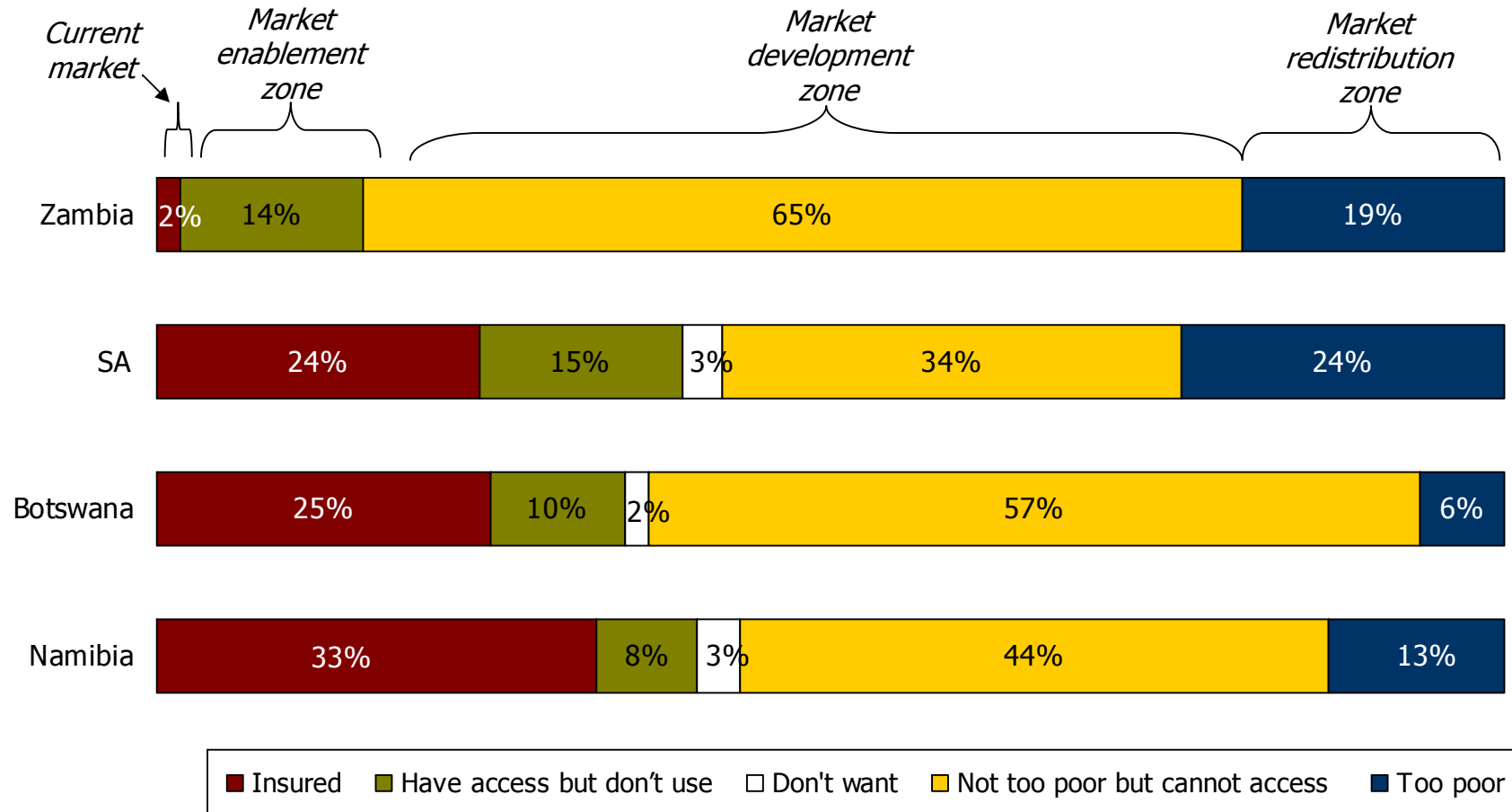
SA market context: Current MI market - LSM 1-5 (poorest 60% of the population)



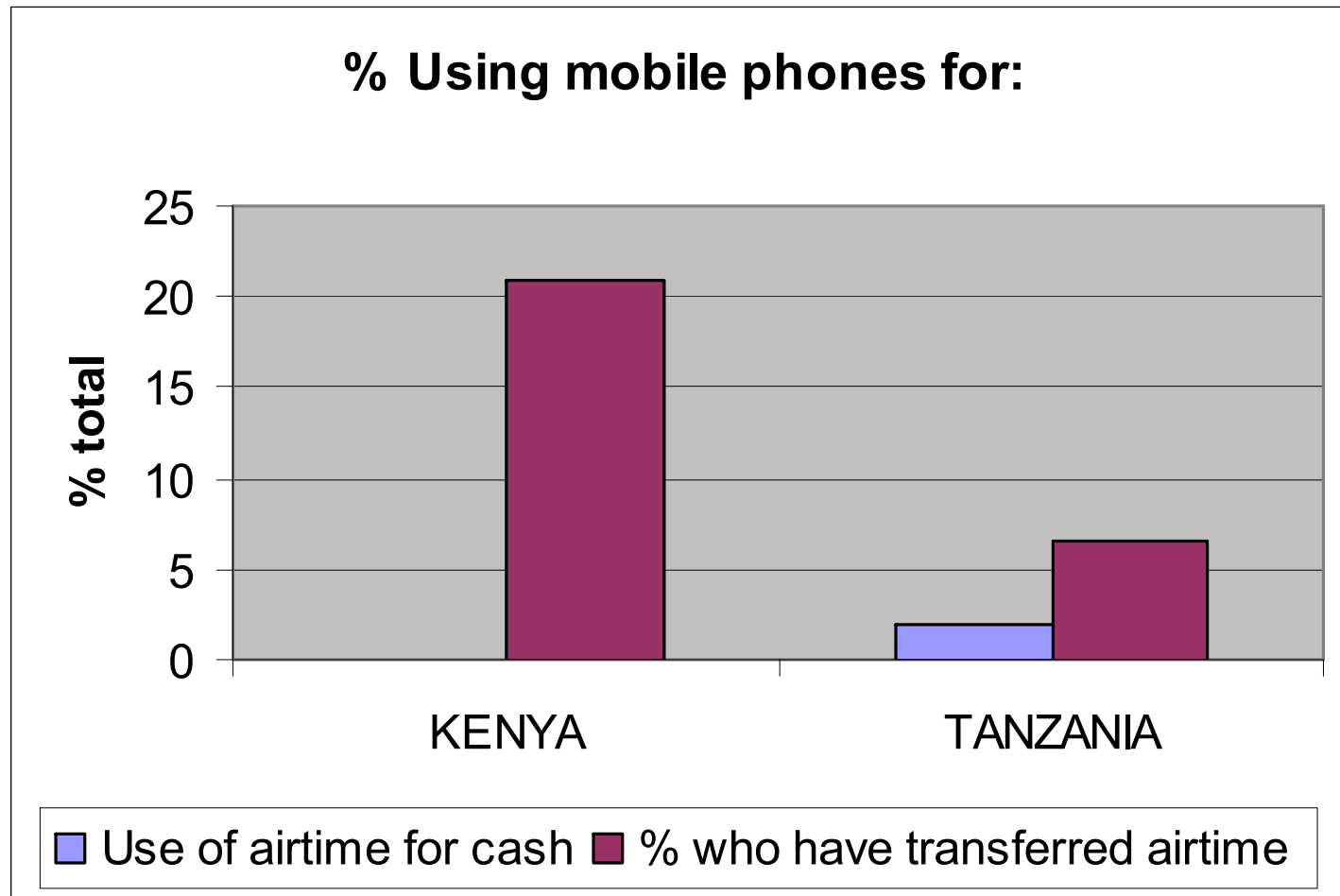
Based on a paper entitled "The Access Frontier as an Approach and Tool in Making Markets Work for the Poor" by David Porteous



South Africa: The Access Frontier for Funeral Insurance



Funeral insurance access frontiers for selected African countries



Note: question only asked in these two countries so far



New technology offers the opportunity to transform collection systems



Insurance Value Chain





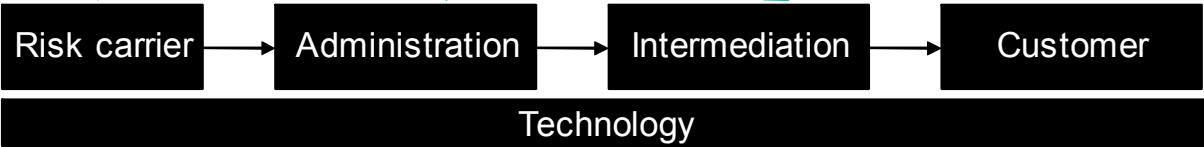
Mutual or stock

Internal or outsourced

Brokers, agents, bank/retail insurance, direct etc

Marketing, sales, policy administration, claims payment, servicing by third parties

Distribution channel



Policy origination, premium collection, policy administration

Cash or bank or e-money

Social or IT

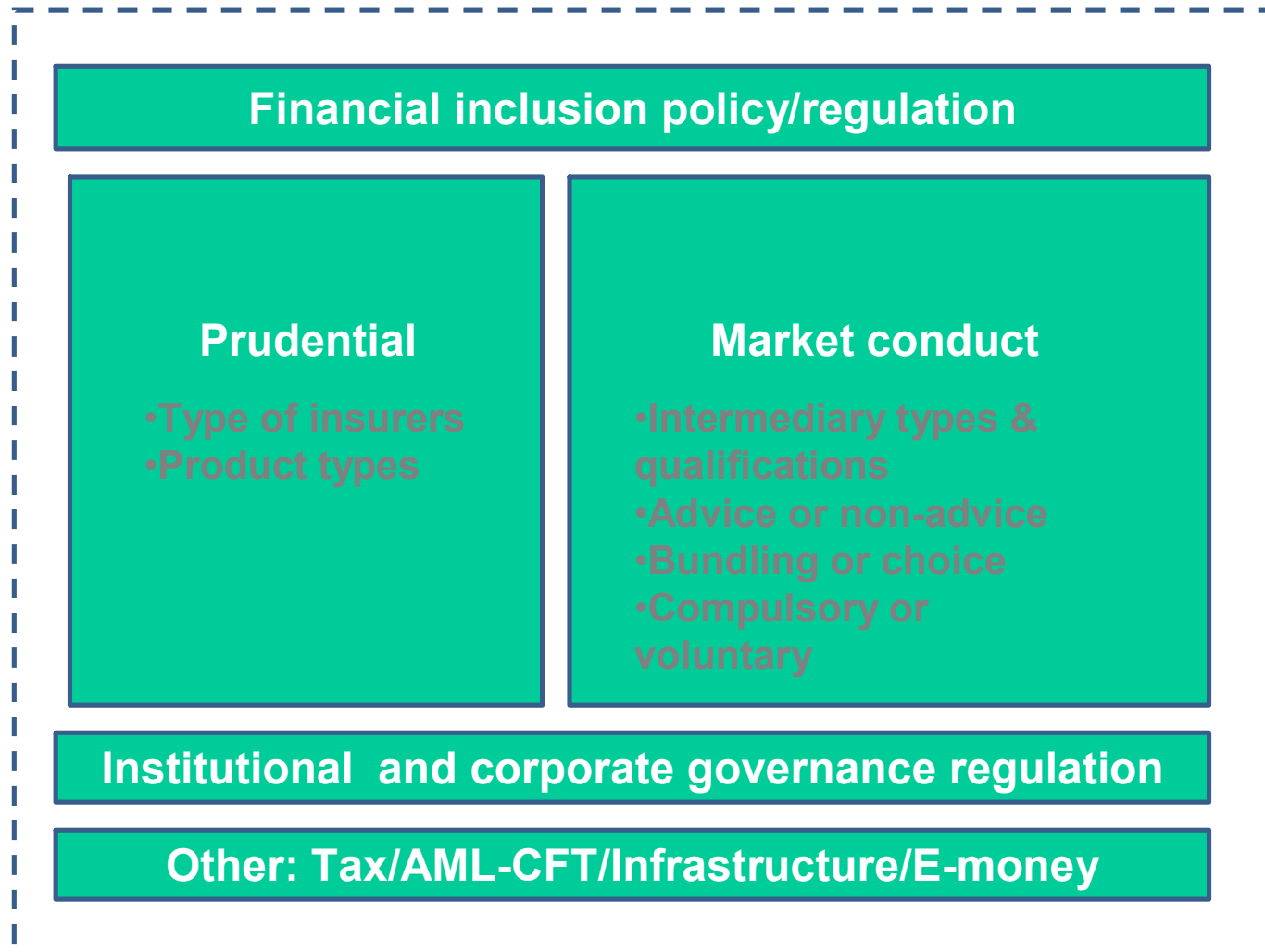
Source: Genesis (2007)

Insurance value chain: all about efficiency



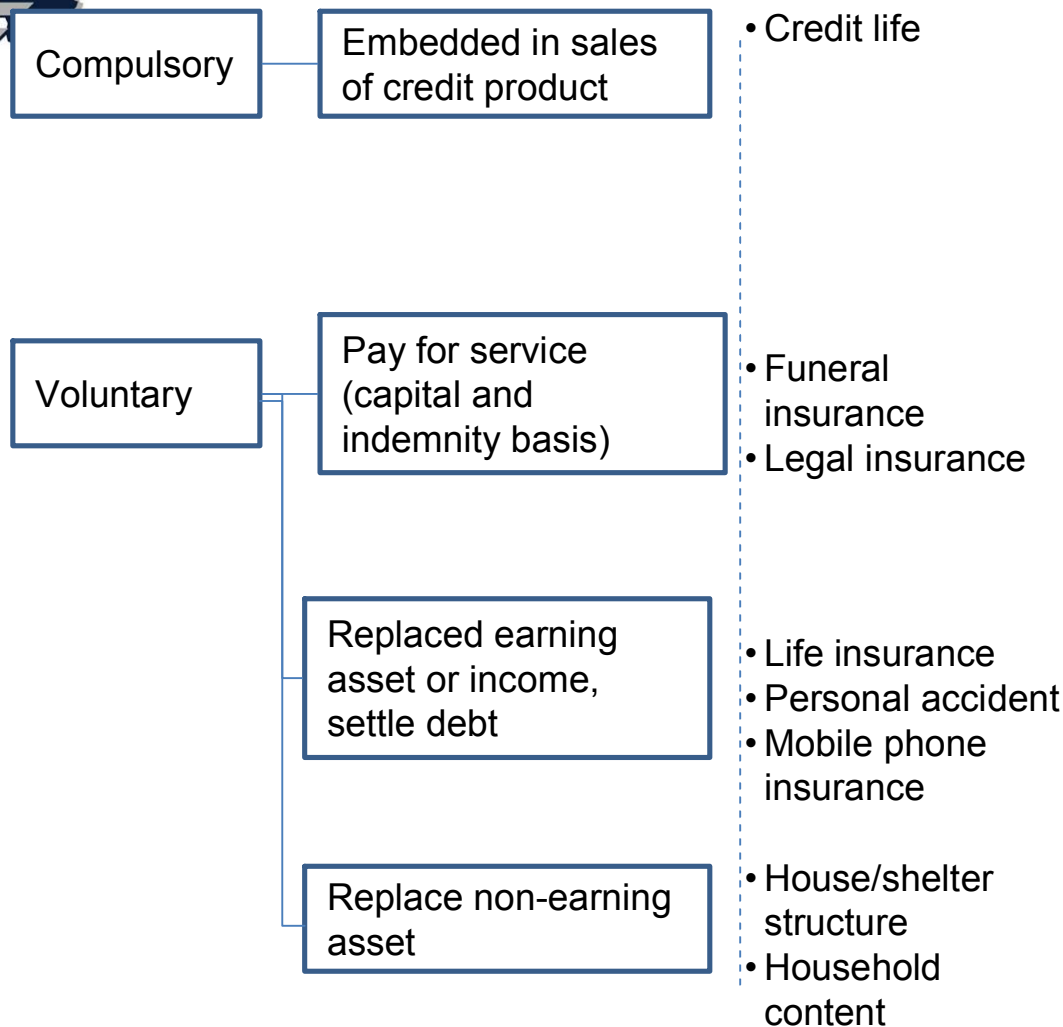
[Regulatory Context]





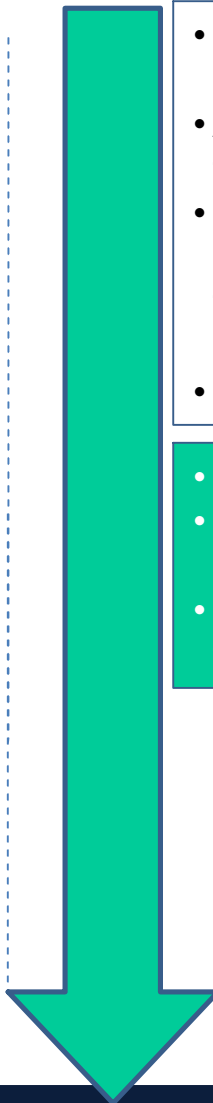
Source: Genesis (2007)

Outline of regulatory objectives: a basic model



- Formal insurance not the point of entry for low-income consumers
- All MI products written on short-term basis (<12 months)
- New models allow for cash premiums and premium collection through non-bank channels (e.g. Retailers and cell phones)
- New models rely on passive sales

- Decreasing take-up
- Increased sales effort and cost of claims assessment
- Increasing sensitivity to transaction-based regulatory costs



Source: Genesis (2007)

Product drivers and dynamics: risk is product based

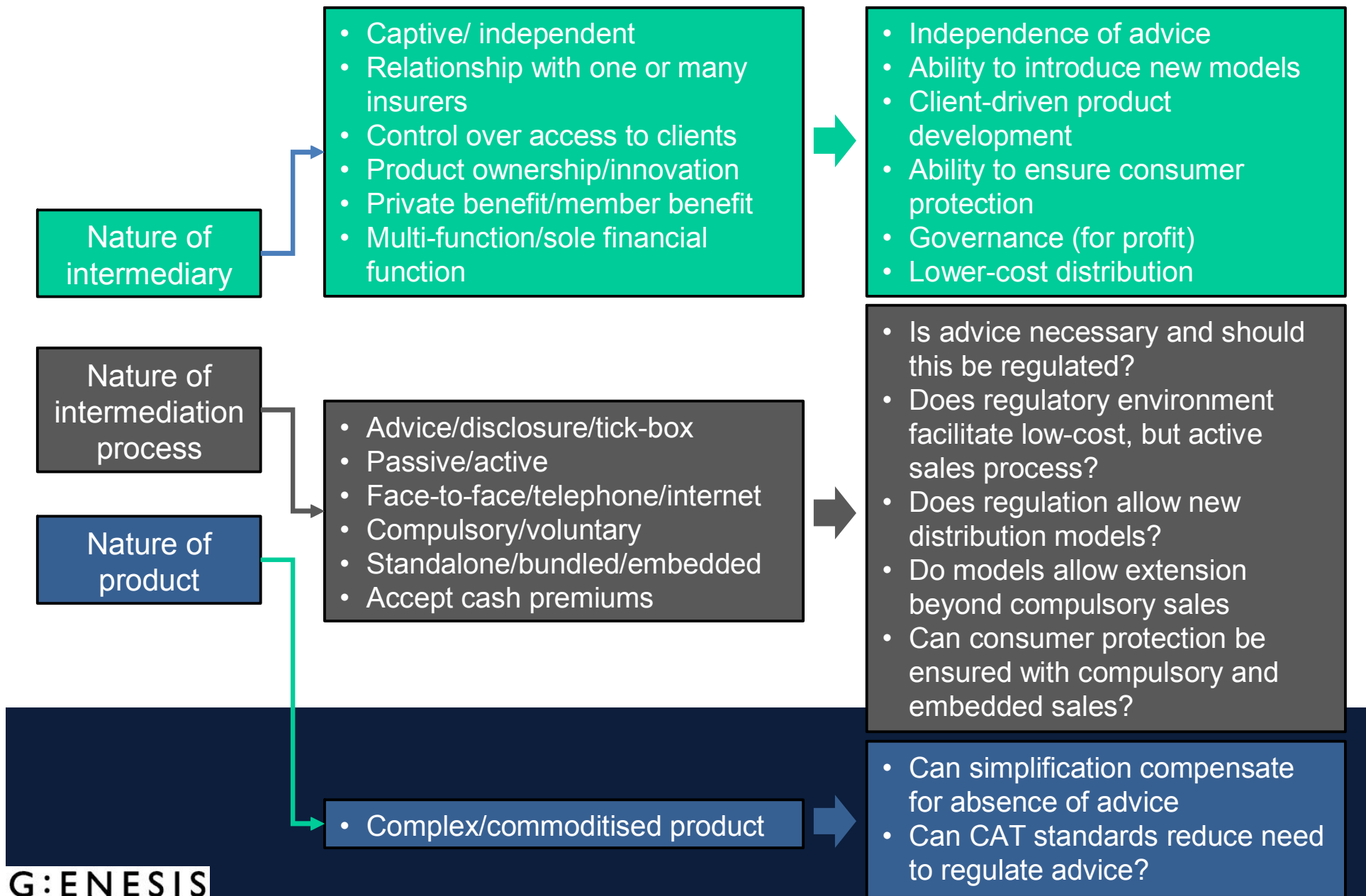


Emerging intermediary typology



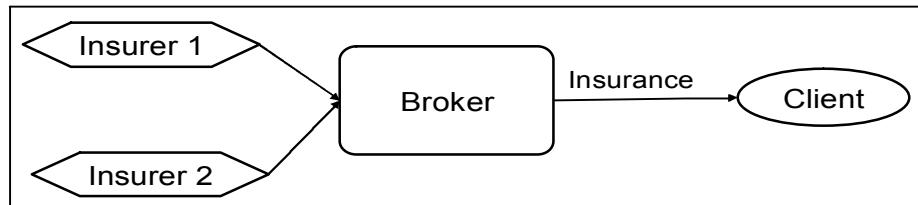


Intermediary typology



Emerging types of intermediaries

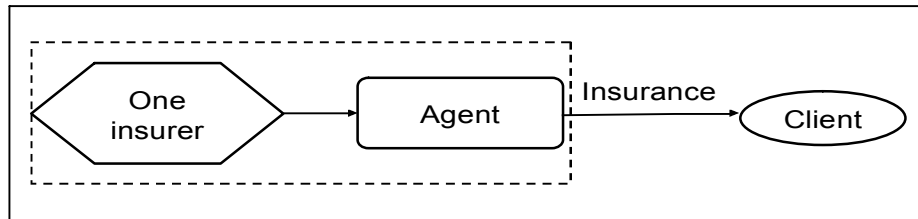
I) BROKERS



Examples:

- Traditional broker / Emerging broker
- Shared brokerage
- Networked brokers

II) TIED AGENTS

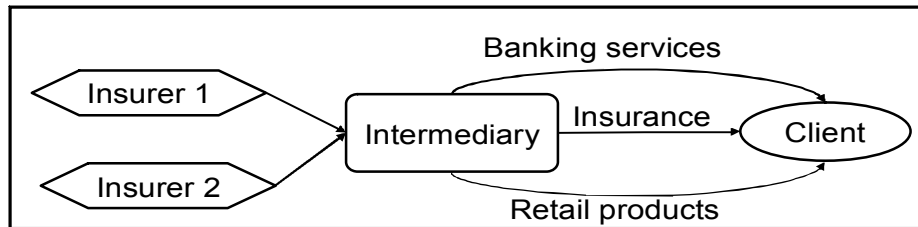


Examples:

- Traditional agent or franchised agency, e.g. Liberty Life
- Tiered-agency force

III) MULTI-FUNCTION INTERMEDIARIES

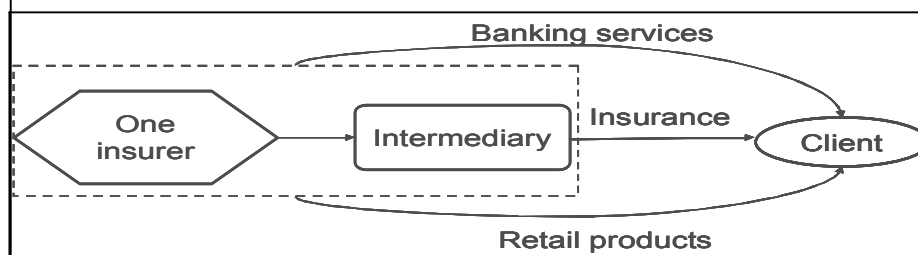
(a) Independent



Examples:

- Retailers, e.g. Shoprite
- Banks, e.g. Standard Bank
- Independent funeral parlours

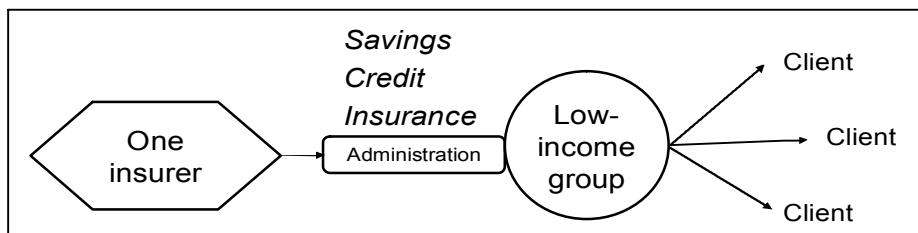
(b) Tied



Examples:

- Retailers, e.g. Pep/Hollard and Edcon/Hollard
- Tied funeral parlours
- Banks & MFIs, e.g. Wizzit Bank

IV) LOW INCOME GROUPS

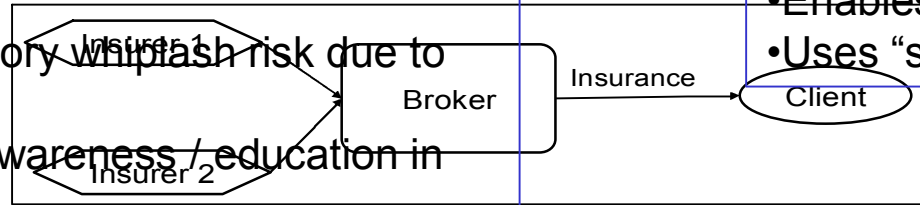


Examples:

- Burial societies/ROSCA/ASCAS,
- Apex bodies, e.g. SACCOL
- Unions

Challenges & risks:

- Commission structures due to small size of policies.
- Potential for regulatory whiplash risk due to lack of advisers
- Lack of brand and awareness / education in low income market.



Opportunity:

- Reduces costs
- Enables employment opportunities.
- Uses “social capital” of runners

Example 1: SANTAM (South Africa) broker with runners

- Recent variation on broker model
- Sell new low-income household structure and content insurance
- Brokers employ “runners” who sell the product but not registered to provide advice
- Advice provided by broker or supervisor. Supervisor for every 5 runners.
- Premiums collected by debit order. No option to pay premium in cash.
- Free “Call me” for SMS used for call centre access



The model: Global broker cum administrator dedicated to working with microfinance players to develop and administer micro-insurance policies. End of 2006, MIA had more than 641 000 policies which covered more than 3 million lives. In Africa they have 51 000 clients (with 190 000 dependents).

Micro Insurance Agency Holdings



OPPORTUNITY INTERNATIONAL NETWORK

Risks & challenges: (a) Growing consumer activism and consumer protection will prevent compulsory credit-life products which has been focus (b) Regulatory constraints entrenches existing providers and allows for 'brown bag' activities. Eg no incentive possible for bancassurance partners in Uganda. (c) Entrants of new insurers with own administrative systems and thirst for BOP market may crowd out OIA in future. (d) Potential for MFIs to develop own insurance capacity.

“Opportunity”: Expertise in product development in this market is limited and growing demand from clients. Ability to offer low cost administration platform is a key competitive advantage

A hybrid new breed of broker

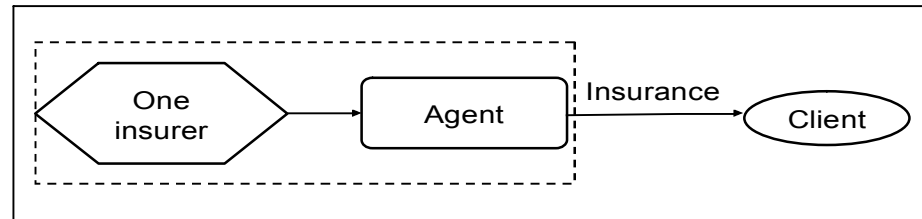
Challenges & Risks

- Regulatory requirement for cash alternative
- Complicated and changing regulatory environment as not offering advice

Opportunities

- Leverage off the “service” involved as persistency higher via the parlour than the agent.

II) TIED AGENTS



HTG SA tiered agency force

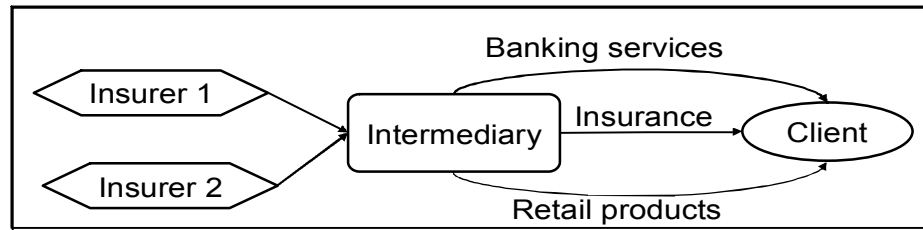
- Similar to the broker model
- Variation on agency model
- Funeral policies only
- HTG funeral parlours employing runners who sell policies and collect cash premiums
- Claims paid via funeral parlours
- Runners cannot provide advice. Refer to representative in funeral parlour



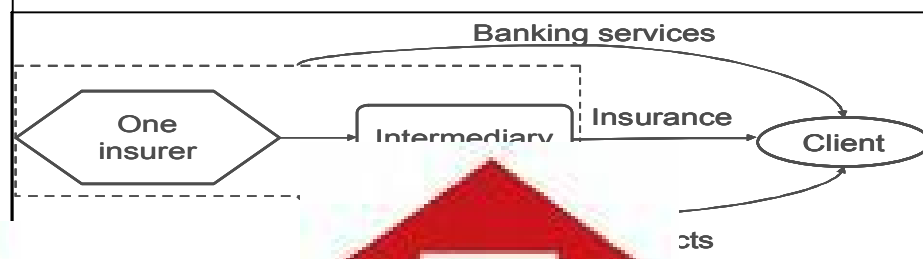
South Africa

III) MULTI-FUNCTION INTERMEDIARIES

(a) Independent



(b) Tied



South Africa



Grameen Bank

Bangladesh



Uganda

RETAILER: Pep/Hollard

- Launched March 2006
- Monthly renewable funeral, personal accident and cell phone insurance policies
- Utilise Pep stores chain for distribution
- Purchase starter pack in store. Contact details captured at till. Call centre contact to activate the policy
- Passive, tick-box sales. Questions answered by call centre.
- Accept cash premiums.
- Pay-out to bank account or via Mzansi money transfer product
- Renewal reminders via SMS

AIRTIME AGENTS: Discovery/Smartcall

- Launched Nov 2006
- Monthly renewable funeral policies
- Utilise airtime distribution network via retailers. Use SMS with phone call on queries, reminders and renewals
- Registration pack with basic information
- Passive, tick-box sales. Questions answered by call centre
- Accept cash premiums. Vouchers purchased for premiums. Pay-out to bank account or via Mzansi money transfer product to post office

Challenges & Risks

- Lack of awareness / education
- Lack of persistency
- Lack of advice on models opens up regulatory risk
- Poor literacy levels provides a challenge

Opportunities

- Low cost outreach
- Wide accessibility in remote areas
- Cash market covered

- Life insurance
- Credit cards
- Loans
- Mortgages
- Savings
- Travel

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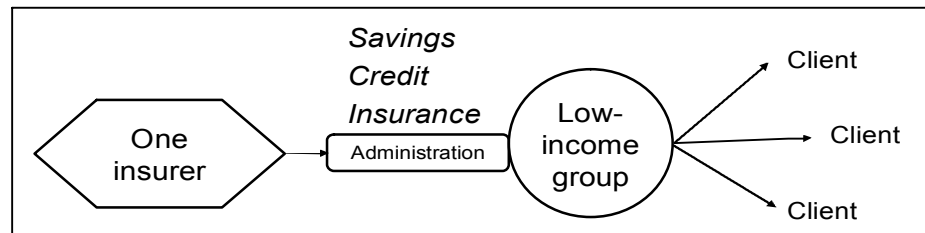


South Africa



La Equidad,
Colombia

IV) LOW INCOME GROUPS



Challenges & risks

- Growing regulatory concern that corporate governance not sufficient - mutual nature not sufficient.
- Lack of capacity and systems
- Coops typically charge 25-35% admin fee and this is increasing as they realise their bargaining power. Whilst, in theory, low cost, this channel is not cheap.

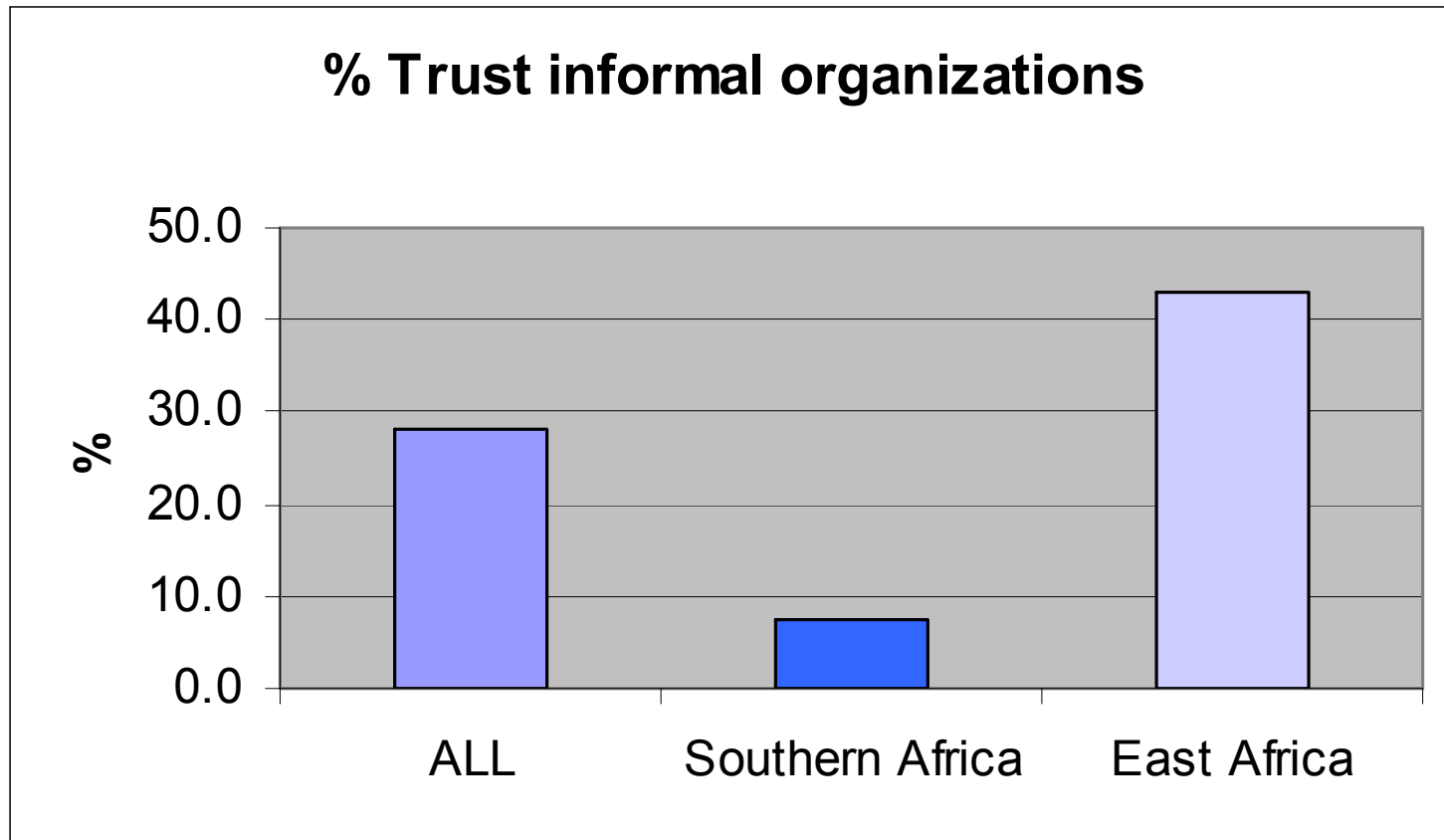
Opportunities

- Social capital
- Lower cost infrastructure (often due to informality) and profits should remain members
- Adaptability to member needs



La Equidad (Colombia)

A cooperative insurer in Colombia that sells to non-members as well. Mostly sell through cooperatives that are part of Confecoop (coops association). Whilst for member benefit, policyholders are not necessarily members.



Note: Trust informal organizations =% disagreeing with statements like "you don't trust informal associations like (local variety of informal savings/credit group)"

However, trust of informal organisations is not high in Africa and differs greatly by region



Conclusions



Likely reach to low income market:

- Traditional, advice-based models pushed out of lower-income market
- New models more cost-efficient, reaching lower-income markets
- Multi-function models particularly cost efficient
- New voluntary models starting to extend beyond bank reach by allowing cash collection
- Cell phone technology being utilised to reduce cost and improve persistency
- Most new models starting to rely on voluntary sales

Still limited to funeral insurance or credit life and regulatory constraints:

- Few models have added non-funeral products, but take-up not yet demonstrated
- Broker/agent variations will be interesting to watch as these allow for active selling
- This may require leniency on commissions and market conduct regulation
- An enabling environment for intermediaries key. Eg Uganda requires up front payments for insurance unless one is a broker and prohibits commission to non-brokers.

Reach not equal to take-up:

- However, reach not equal to take-up
- Most of the new models employ passive sales models which is not yet proven to achieve take-up (particularly for non-funeral insurance)

Absence of advice risks mis-selling and churn:

- Due to regulatory cost and risk, new models have avoided advice and verbal disclosure.
- Regulatory uncertainty on whether space for non-advice selling will continue to exist

Conclusions



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