Microinsurance Operations in the Philippines / Indonesia / Sri Lanka

― *FALIA Microinsurance Survey 2017* ―

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Overview

The IAIS[1] has defined "microinsurance" as insurance accessible by low-income populations, provided by a variety of different entities, but run in accordance with generally accepted insurance practices. The microinsurance market is growing steadily in the Asia-Pacific region due to the strong leadership of regulators aiming for financial inclusion as a national strategy and increasing the number of private players who foresee the future market potential. However, there are still many insurers who hesitate to enter this relatively new market due to the uncertainty of sustainable profitability. This survey aims to provide a better understanding of recent trends regarding microinsurance operations, especially life insurance sector in the following countries; the Philippines, Indonesia and Sri Lanka, and to extract some critical success factors to encourage insurers to enter this market and develop their microinsurance strategy.

Survey Methodology

FALIA (the Foundation for the Advancement of Life & Insurance Around the world) focused on three countries[2]; the Philippines, Indonesia and Sri Lanka to conduct a microinsurance survey in 2017.

The analysis in this report is based on a survey[3] conducted via email and interviews with market sources by meeting in the selected countries. The survey questionnaire targeted life insurance companies, life insurance associations, regulators, and other institutions in the selected countries that have a relationship with FALIA.

The selected countries and a classification of the institutions are shown below.

Indonesia, the Philippines, Sri Lanka.

Surveyed Institutions (17)

- Private companies: 14
- Life insurance associations: 2
- Insurance regulators: 1

Interviewed Institutions (30)

- Private companies: 19
- Life insurance associations: 1
- Insurance regulators: 3
- Others: 7

The number of responding institutions in the figures may vary depending on valid responses and/or the availability of data.

[1] The International Association of Insurance Supervisors.

[2] FALIA compiled the survey results of selected three countries because of their relatively high response rate.

[3] Survey forms consisting of 37 questions were sent to private companies and forms consisting of 16 questions were sent to regulators/associations.

Summary

The findings regarding microinsurance operations in the selected countries include the following observations:

Market Overview

Microinsurance Penetration

- Microinsurance coverage ratios and the number of insured are overwhelmingly higher in the Philippines than in the other two countries (Indonesia and Sri Lanka).

Survey Results — Key Findings

Reasons for Entering the Microinsurance Market

- Most respondents place more importance on "Business (profitability)" as their reason for entering this market. But most respondents also gave some weight to "Branding" or "CSR" as their reason.

Distribution Channels

- The respondents who have adopted a partner-agents model have a wide range of distribution channels. In this model, insurance providers try to make partnerships with as many channels as possible to increase the number of insured policy holders.
- Banks and agents are the most prevalent channels for microinsurance in the selected countries. This might mean that many insurance providers deliver their products through their group banks or their own agents (in-house model).

Microinsurance Product Types

- Term life is the most popular product, followed by credit life and PAD (Personal Accident Disability) in the selected countries.
- Pre-need is popular in the Philippines and Sri Lanka and composite is popular in the Philippines and Indonesia.
- Term life is sold through various distribution channels including online. Credit life is sold mainly through banks and MFIs (Micro Finance Institutions) because of their loan businesses.

Enrolment

- Most microinsurance products of surveyed companies are offered to clients on a voluntary basis, but compulsory products like credit life are also prevalent in the selected countries.
- From a cost efficiency point of view, it should be no surprise that more than half of respondents do not include medical selection with their products.

Customer Education

- Training of distribution channels who meet directly with customers is very popular in the selected countries.
- Simple policies (products) which need little explanation are also popular. Furthermore, collateral and brochures written in the local language are important for customers to understand products more easily.
- It is worth noting that some insurers try to utilize technology, like utilizing SMS or making automatic phone calls, to explain contractual coverage more effectively.

Cost Efficient Operations

- To reduce operational costs, products must be simple enough for insurers and partners to manage enrolment and settle claims easily. Therefore, most products do not require a medical declaration or sometimes they are delivered with pre-underwriting.
- Technology also plays a big role to reduce operational costs. While technology can simplify application procedures or allow insurers to go paperless to reduce workload, it also enables insurers to acquire large numbers of customers by utilizing mobile technology.

Mobile Technology

- Six out of seven respondents who cited “Technology Utilization” as a measure they use to ensure cost efficient operations utilize “mobile” technology.
- These institutions have adopted mobile technology to handle many operational procedures. Mobile technology is most utilized for enrolment in the selected countries, followed by use in processing claims and transferring data.

Regulations

- Almost all respondents indicated that regulations are favorable to microinsurance providers.
- There are specific microinsurance regulations in the Philippines and Indonesia. Specific major regulations regarding product approval, consumer education, and consumer protection exist in each of these countries.

Key Drivers

- The first key driver in this survey is “Simple Products”. There is no doubt that microinsurance must be simple enough for customers to understand easily and for insurers to offer cost effectively.
- “Distribution Channels” and “Collaboration with Stakeholders” are also regarded as key drivers. If you can deploy a strong distribution network and maintain close trust relationship with stakeholders, your microinsurance business will almost certainly be successful.

- "Supportive Regulations" and "Technological Innovation" are also key success factors in a microinsurance strategy. Regulators play a big role in the development of microinsurance, especially in terms of incubation during the early stages. Technology is increasingly indispensable to achieve cost-efficient operations and acquire customers.

Key Challenges

- Low awareness of life insurance among consumers is by far the biggest challenge in the selected countries.
- Due to the nature of this low-margin business, profitability is also regarded as a very serious issue in the selected countries.

Interview Results — Considerations

Insurance Literacy

- Regardless of your business model, development of simple products and the provision of compulsory products should be considered as the first basic step to increase insurance awareness. Insurance providers should also pay benefits as soon as possible to achieve a good word-of-mouth reputation.
- If your business model is a partner-agents model, you should choose highly trusted partners with whom you can share a common vision, and train them well.
- If your business model is a mutual/cooperative model or directly delivering insurance to customers, you should develop products that are tailored-fit to the needs of your customers and hold regular meetings with them in the community.
- Regulators can support all stakeholders by implementing advocacy campaigns and/or awareness events.

Profitability Issue

- There are two methods of increasing the bottom line: one is increasing the total amount of premiums and the other is reducing costs. To have a larger number of customers, it is necessary to have a large number of distribution channels and to enhance the purchasing power of customers by raising consumer awareness and/or increasing the value of affordable products. To reduce costs, on the other hand, insurers should utilize the infrastructure of existing distribution channels and/or use mobile technology ("Back to the Basics Strategy").
- Other main strategies[4] include: "Outsourcing to Partners", "Limiting to Profitable Products or Premium Collection Methods", "Long-Term Strategy", and "Financial & Technical Support from International Aid Organizations".

[4] Page25-26

Good Relationships with Stakeholders

- An integrated approach is indispensable in delivering affordable microinsurance products. Therefore, microinsurance providers should share the same vision with all of their stakeholders through close communication to develop trust-based relationships and strategic collaboration. Such a strong bond can deliver great value more effectively with a customer-centric mindset.
- Regulators act as facilitators by providing a platform for stakeholders. They organize technical working groups or task forces to hear the voice of stakeholders.

Regulations

- The bottom line is how to achieve a good balance between deregulation and consumer protection. Over-regulation incurs high costs and causes discouraged players to withdraw from the market. Close communication among all stakeholders is therefore necessary.
- Using a microinsurance logo is effective for marketing and raising the awareness of consumers. It gives customers a greater feeling of familiarity with microinsurance.
- The platform established by regulators offers them an opportunity to hear the voices of related institutions and to share the best practices of successful institutions.
- Regulators should provide more incentives to microinsurance providers who achieve some standards set by regulators.
- Other main roles[5] of regulators include: "Definition of Microinsurance Products", "Encouraging Private Sector Participation", "Consumer Protection", and "Literacy Programs".

Other Recommendations

- Measures to limit the risk of fraud and adverse selection are important in the microinsurance business. Some insurers try to hire local agents living within the same community as customers to warm against fraud and check one out of ten claims.
- Most private insurers enter the microinsurance market by selling compulsory products like credit life or term life to obtain the customer base necessary to achieve early break-even. Then, they aim to raise customer awareness and gain trust from partners by paying benefits as soon as possible. This mutual trust becomes a catalyst for the up-sale of voluntary products.
- The most important thing is maintaining an appropriate strategy by regularly monitoring day-to-day business. In this ever-changing market environment, close communication with partners and engaging customers is essential methods such as an "experimental lab" to adapt to new realities faster than your competitors.

[5] Page29-30

Market Overview

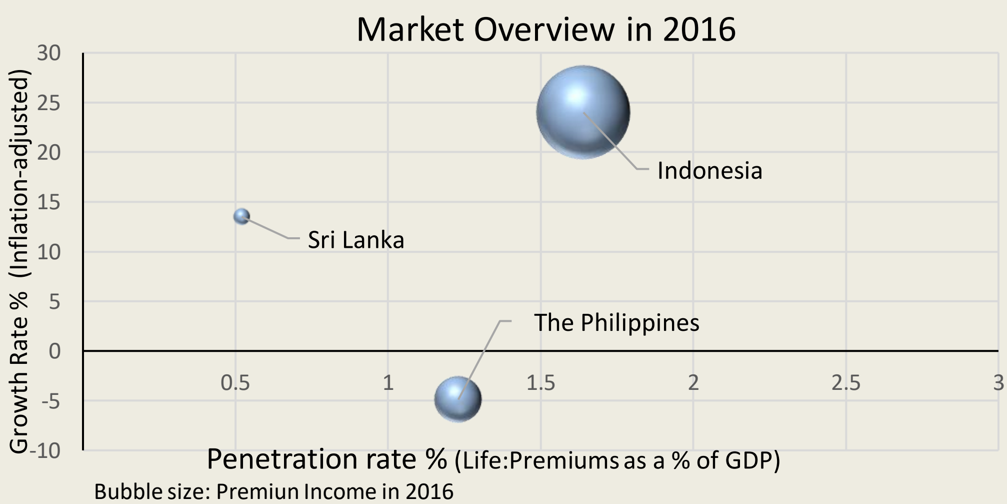
Life Insurance Market Trends in the Selected Countries

Figure 1 shows the penetration rates and growth rates for life insurance in the selected countries (the Philippines, Indonesia, and Sri Lanka). In terms of 2016 premium volume, Indonesia's life insurance market ($15.29 billion) is the largest, followed by the Philippines ($3.74 billion) and Sri Lanka ($440 million).

In terms of premium income growth rate, Indonesia recorded the highest rate (24%) in 2016, followed by Sri Lanka (13.5%) and the Philippines (-4.9%). In Indonesia, an increase in the number of bancassurance distribution partnership and the overall growth of the Indonesian economy contributed to this robust growth. In Sri Lanka as well, high interest rates contributed to an increase in the sales of life insurance products bundled with an investment component. Also, life insurance companies that have split from composite insurance companies in recent years were able to implement their own strategies more aggressively. This trend played a big role in this growth. In the Philippines[6] on the other hand, a nose dive in the stock market caused a decrease in the sales of variable insurance products. In the Asia-Pacific region, the life insurance market remains basically oriented towards savings, and therefore the growth rate basically depends largely on the interest rates of savings-related products and therefore experiences a certain degree of volatility.

Finally, the penetration rate for Indonesia (1.64%) is higher than for the Philippines (1.23%) and Sri Lanka (0.52%).

Figure 1 —
Life Insurance Market in the Selected Countries — Penetration Rate and Growth Rate in 2016



Source: World Insurance in 2016 — Swiss Re Sigma

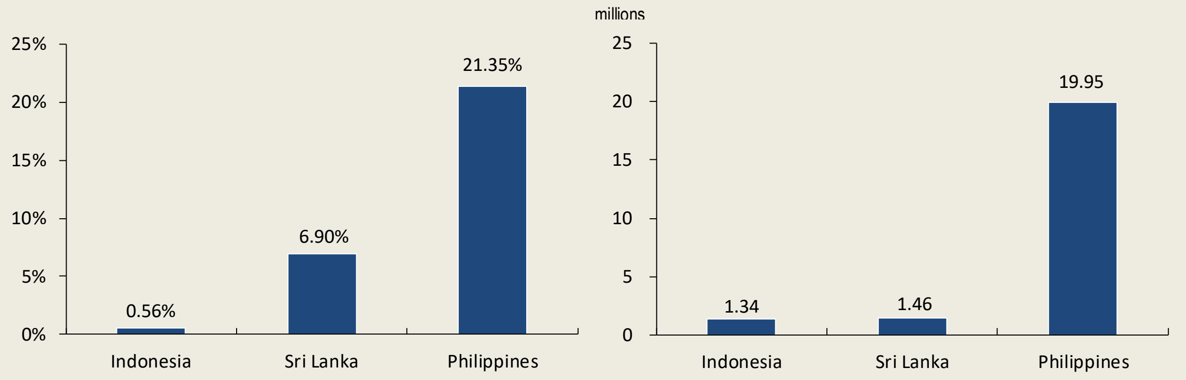
Note: Growth rates of premium income in this figure are calculated based on premiums in local currencies and adjusted for inflation.

[6] In the Philippines, the premiums for a mutual benefit association (MBA) is separate from the life or non-life sector. Also, in 2016, the premium for MBAs grew by 18.29%.

Microinsurance Penetration

The microinsurance coverage ratio and the number of insured is overwhelmingly higher in the Philippines than the other two countries. The Philippines has the highest microinsurance penetration (21.35%) in the Asia-Pacific region, followed by Thailand[7] (14.02%) and India[8] (9.22%). We can therefore learn a lot from the Philippines as the most advanced country in this region, and there must also be great room for growth in Indonesia[9] and Sri Lanka.

Figure 2 — Microinsurance Coverage Ratios and the Number of Insured



Source: Landscape of Microinsurance in Asia and Oceania 2013, The Landscape of Microinsurance in Sri Lanka 2016 / Munich Re Foundation, GIZ-RFPI, Microinsurance Network

Note: Data for the Philippines and Indonesia is from 2012 and the data for Sri Lanka from 2015.

7 The data is from 2012.

8 The data is from 2012.

9 In the first quarter of 2017, microinsurance premiums in Indonesia reached IDR278.2 billion (US$20.8 million), an increase of 80% over the corresponding quarter in 2015.

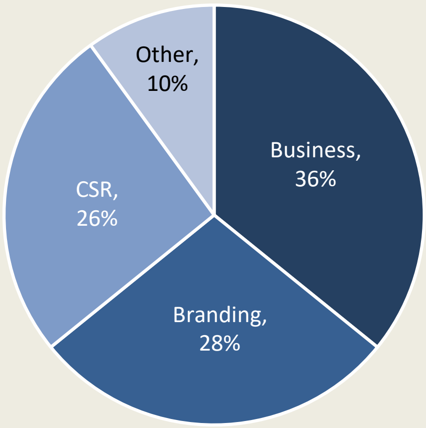
Survey Results — Key Findings

Reasons for Entering the Microinsurance Market

Most respondents placed more importance on “Business (profitability)” as their reason for entering this market. However, most respondents also gave “Branding” or “CSR” to some degree. Only one company gave “Business” as being 100% of their reason.

As we will discuss later, microinsurance products in general have low margins, so it is more suitable for institutions to adopt "Branding” or a CSR spirit, such as reducing poverty, as their long-term strategy. However, in terms of sustainability, making a profit or reaching break-even within a given period is also imperative.

Figure 3 —
Reasons for Entering the Microinsurance Market – Average of Percentages



(n=12)

Source: FALIA Microinsurance Survey 2017

Note: The question was: “What is your objective to enter in this market? Please fill in the percentage of each objective”

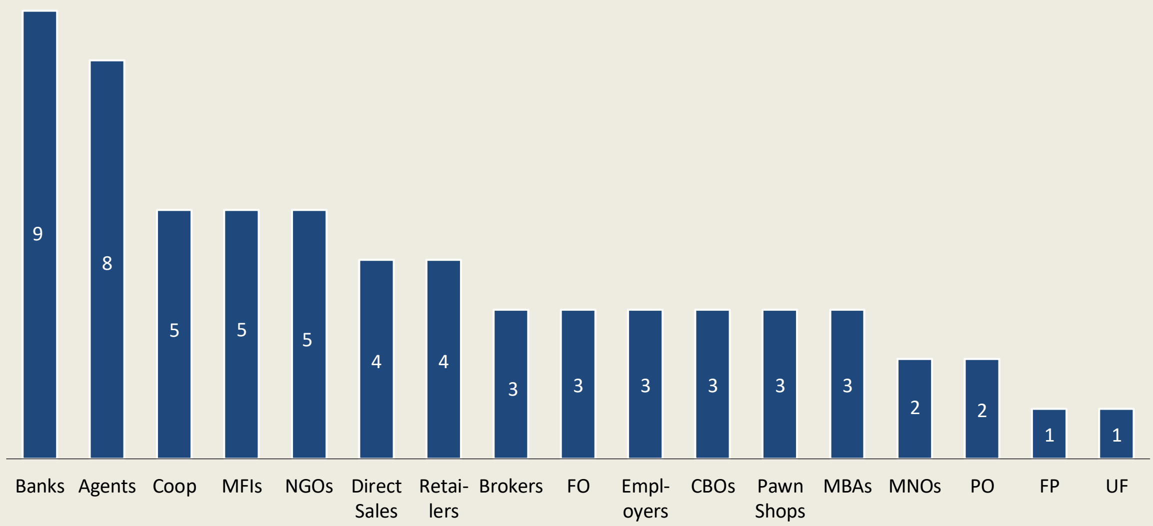
Distribution Channels

One of the most characteristic factors of the microinsurance industry is that there are so many stakeholders to deliver the products. As Figure 4 shows, the respondents who adopted a partner-agents model have a wide range of distribution channels. In this model, insurance providers try to make partnerships with as many channels as possible to insure larger numbers of people. Among these channels, banks (9) and agents (8) are the most prevalent in selected countries. This might mean that some insurance providers deliver their products through their group banks or their own agents (in-house model).

Aside from traditional channels like cooperatives or MFIs, it is notable that new channels like pawn shops, MNOs (mobile network operators), retailers and postal operators have lately begun to show a presence.

On the whole, while distribution channels differ from institution to institution[10], a strong and expanded distribution network is a key success factor in a microinsurance strategy.

Figure 4 —
Distribution Channels — Number of Companies



(n=17)

Source: FALIA Microinsurance Survey 2017

Note: Multiple responses allowed. The question was: "Which distribution channels do you have to sell microinsurance products?"

Coop: Cooperatives, MFIs: Microfinance Institutions FO: Field Organizer, CBO: Community Based Organizations, MBAs: Mutual Benefit Organizations, MNOs: Mobile Network Operators, PO: Postal Operators, FP: Funeral Parlors, UF: Utility Firms.

[10] Distribution channels also differ from country to country, MBA is very popular in the Philippines and postal operators are popular in Sri Lanka.

Microinsurance Product Types

Figure 5 shows the main microinsurance products among the responding institutions. Term life is the most popular, followed by credit life and PAD (Personal Accident Disability) in the selected countries.

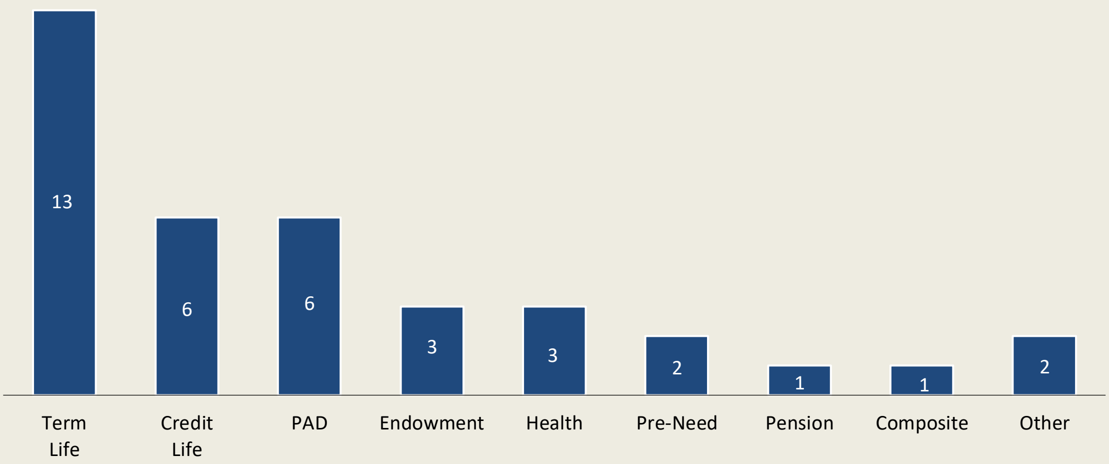
In general, microinsurance providers enter this market by selling simple compulsory products like term life or credit life to build a revenue base during the initial stage, and then move to more complicated voluntary products like PAD, health or savings-related products (endowment, pension, etc.).

Pre-need is popular in the Philippines and Sri Lanka. This type of insurance is intended to prepare for funeral expenses, educational costs or retirement[11].

Composite is popular in the Philippines and Indonesia. For instance, CARD Pioneer in the Philippines delivers “SAGIP” which combines personal accident benefit, funeral benefit and disaster assistance. In Indonesia, many life insurers deliver the consortium[12] product “Si Peci” which combines term life and accidental death.

Overall, products must be simple enough for customers to understand and be developed carefully based on actual customer need.

Figure 5 —
Microinsurance Products — Number of Companies



(n=15)

Source: FALIA Microinsurance Survey 2017
Note: Multiple responses allowed. Other includes property and agriculture.

[11] Pension is categorized as pre-need in the Philippines.

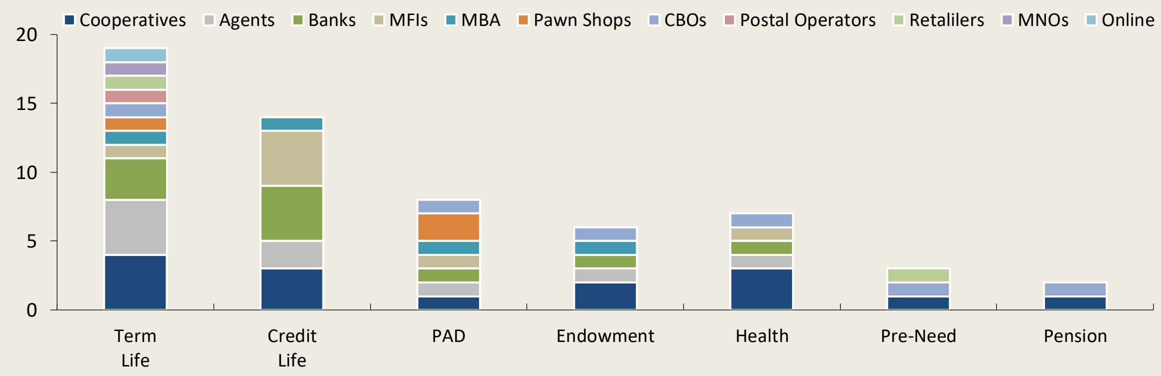
[12] A task force established by OJK with the cooperation of associations and insurers developed this standardized product.

Channel × Product Analysis

As previously stated, term life is the most popular product. Term life is sold through various distribution channels including online (Figure 6[13]). Other products are also sold through various distribution channels, but in general, credit life is sold mainly through banks and MFIs because of their loan businesses.

There seems to be a tendency for cooperatives to aggressively sell a wide range of products like endowment and health insurance. Pawn shops are utilized to sell PAD and term life, and some institutions deliver pre-need products through retailers.

Figure 6 —
Distribution Channels by Product — Number of Distribution Channels



(Responding institutions=13)

Source: FALIA Microinsurance Survey 2017
Note: Multiple responses allowed.

[13] Figure 6 was made based on a different question from figure 5, and therefore numbers used in it may be inconsistent with numbers used for figure 5.

Enrolment

Most microinsurance products of the companies surveyed are offered to clients on a voluntary basis (Figure 7). Given "Other" including "both" depending on products, compulsory products like credit life are also prevalent in the selected countries.

From a cost efficiency point of view, it should be no surprise that more than half of respondents do not include medical selection with products.

Insurance principles[14] are applied to almost all products, but some companies adjust their prices after monitoring the claim ratio.

In addition, most respondents[15] denied the premium subsidy by the government.

Figure 7 —
Enrolment Type and the Presence of Medical Selection — Number of Companies

(n=17) (n=14)

Source: FALIA Microinsurance Survey 2017

Note: Multiple responses allowed. The questions were: "Are products offered to clients on a voluntary or compulsory basis?" and "Do you include medical selection (declaration) with the products?"

[14] Product pricing is based on sound actuarial principles (the law-of-large numbers is applied).

[15] 16 out of 17 companies denied the subsidy by the government.

Customer Education

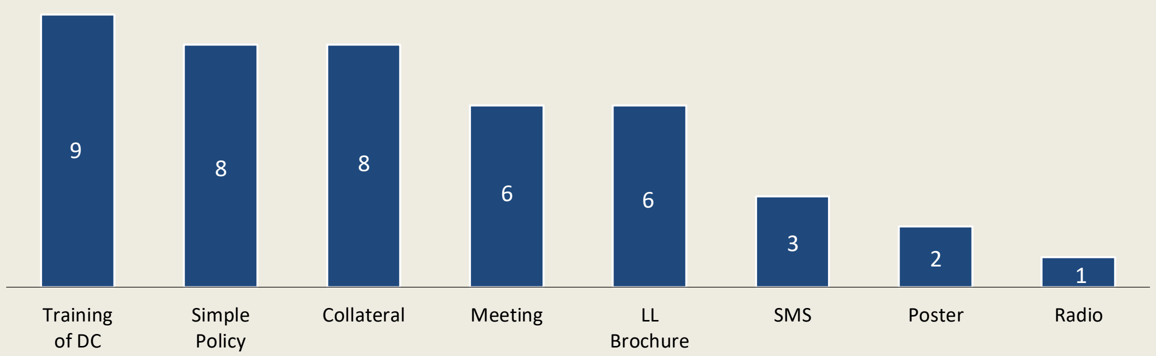
Figure 8 shows the various methods by which insurers educate customers. As we will discuss in more detail later, low consumer awareness of insurance is one of the biggest issues. Therefore, most companies have initiatives to improve the insurance literacy of consumers.

Holding regular meetings to educate customers directly might be most effective, but sometimes costs a lot to cover a larger customer base. Therefore, training distribution channels that meet directly with customers is the most popular method of customer education in the countries surveyed.

Simple policies (products) which need less explanation are also popular. Collateral and brochures written in the local language are important for customers to understand the products more easily.

It is worth noting that some insures try to utilize technology, like sending SMS or making automatic calls[16] to explain contractual coverage more effectively.

Figure 8 —
Methods of Customer Education — Number of Companies



(n=14)

Source: FALIA Microinsurance Survey 2017
Note: Multiple responses allowed. The question was: "What initiatives do you have for customer education?".
DC: Distribution Channel, LL: Local Languages, SMS: Short Message Service.

[16] Allianz Life Indonesia developed IVR (Interactive Voice Response) to educate policy holders of microinsurance.

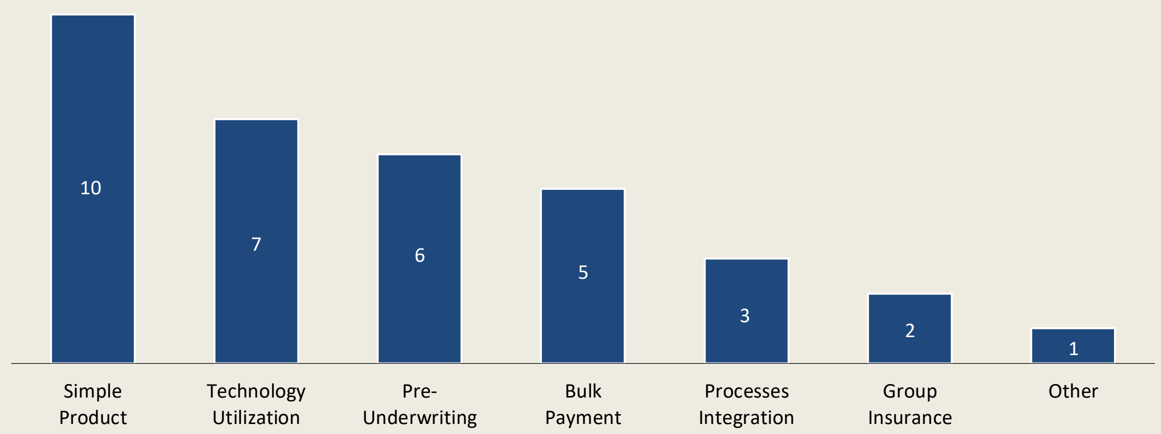
Cost Efficient Operations

To reduce operational costs, products must be simple enough for insurers and partner to manage enrolment and settle claims easily (Figure 9). Therefore, most products do not require a medical declaration or sometimes they are delivered with pre-underwriting. In addition, most products have few or no exclusions.

Technology also plays a big role to reduce operational costs. While technology can simplify application procedures and allow insurers to go paperless to reduce the workload, it also enables insurers to acquire large numbers of customers by utilizing mobile technology (i.e. enrolment by texting) as we will discuss later.

Bulk payment (batch processing) is more popular in MCCO (Mutual Cooperative Community Organizations) in rural areas. Also, some respondents answered that integration with existing procedures[17] (mass-scale administration) is important in reducing additional costs.

Figure 9 —
Cost Efficient Operations — Number of Companies



(n=14)

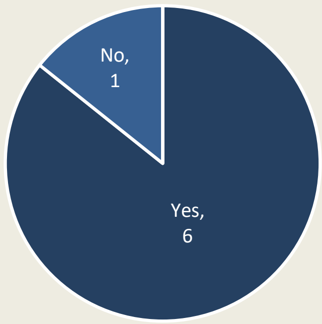
Source: FALIA Microinsurance Survey 2017
Note: Multiple responses allowed. The question was: "What measures do you have to ensure cost efficient operations?".

[17] 7 out of 13 respondents divide the microinsurance business line from the conventional one. In most cases, the size of the microinsurance division is less than 25 employees.

Mobile Technology

Six out of seven respondents who cited "Technology Utilization" as a measure used to ensure cost efficient operations (Figure 9) utilize "mobile" technology (Figure 10). It can therefore be said that mobile technology has become an essential technology to utilize.

Figure 10 —
Utilization of Mobile Technology 1 — Number of Companies



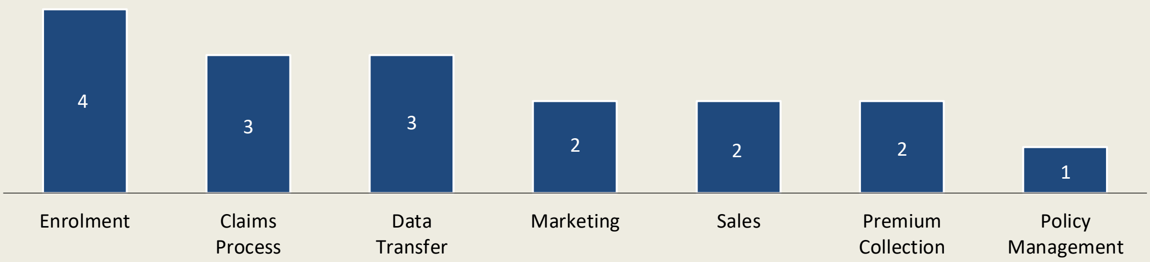
(n=7)

Source: FALIA Microinsurance Survey 2017

Note: The question was: "If you checked "Technology utilization" as a measure to ensure cost efficient operation, do you utilize mobile technology (phone)?".

These institutions utilize mobile technology in many of their operational procedures (Figure 11). Enrolment is the area in which technology is most utilized in the selected countries, followed by processing claims and transferring data. However, as we will discuss later, many companies are starting to focus more on collecting premiums to lower the high lapse rate. For instance, some companies periodically deduct the premium from the airtime or E-money account of a mobile phone.

Figure 11 —
Utilization of Mobile Technology 2 — Number of Companies



(n=6)

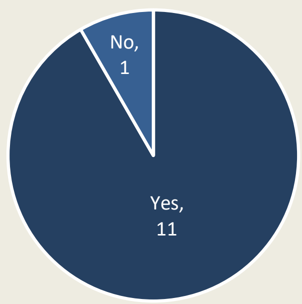
Source: FALIA Microinsurance Survey 2017

Note: Multiple responses allowed. The question was: "Which processes do you utilize mobile technology in?".

Regulations

The development of microinsurance in a particular country is largely dependent on the regulations of each individual country. Almost all respondents in the selected countries answered that regulations are favorable to microinsurance (Figure 12). However, one insurer complained that regulations are too strict to achieve a sustainable profit and asked for more deregulation.

Figure 12 —
Favorable or Not — Number of Companies



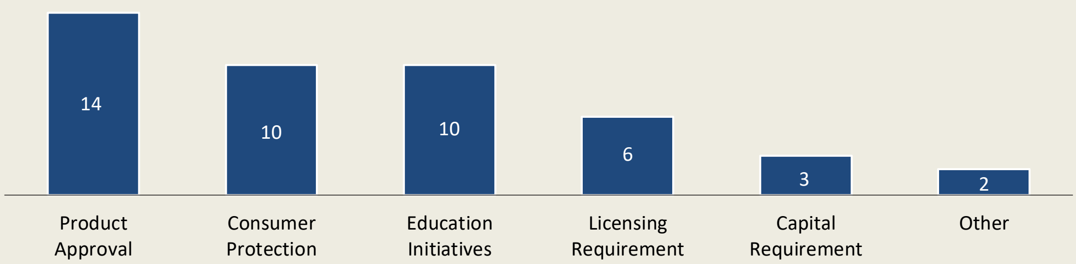
(n=12)

Source: FALIA Microinsurance Survey 2017

Note: The question was: "Is regulation in your country favorable to microinsurance?".

There are specific microinsurance regulations in the Philippines and Indonesia, but no specific regulations in Sri Lanka. Product approval[18] is most prevalent in the selected countries (Figure 13). Consumer education and consumer protection have also come to the attention of regulators. Therefore, regulators have established advocacy campaigns and/or ADR (Alternative Dispute Resolution) and many institutions have a claim help desk[19] (hotline) for customer protection.

Figure 13 —
Microinsurance Specific Regulations — Number of Companies



(n=14)

Source: FALIA Microinsurance Survey 2017 Note: Multiple responses allowed.

[18] Product approval relaxes the approval standard of new microinsurance product or requests the simplicity of the policy contents.

[19] 14 out of 15 respondents have claim help desk for customer protection.

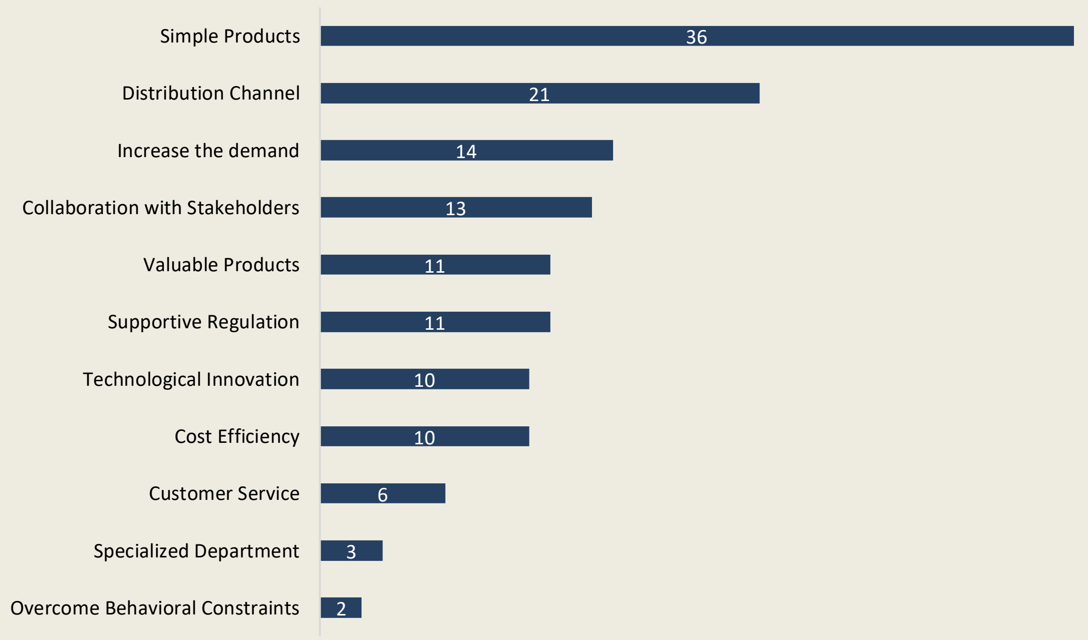
Key Drivers

The first key driver in this survey is "Simple Products" (Figure 14). There is no doubt that microinsurance must be simple enough for customers to understand easily and for insurers to achieve more cost-efficient operations. It is therefore more aptly stated that simple products are a fundamental element of microinsurance rather than a key driver.

"Distribution Channels" and "Collaboration with Stakeholders" are also regarded as key drivers. If you can deploy a strong distribution network and keep close trusted relationships with stakeholders, your microinsurance business should almost certainly be successful. However, it sometimes costs a lot or requires continuous effort to maintain close communication. Therefore, these factors turn out to be big challenges for many insurers.

"Supportive Regulation" and "Technological Innovation" are also key success factors in a microinsurance strategy. Regulators play a big role in the development of microinsurance, especially in terms of incubation at an early stage. Technology is becoming increasingly indispensable in achieving cost-efficient operations and acquiring customers. Finally, we will discuss increasing customer demand in next chapter as a key challenge.

Figure 14 —
Key Drivers — Weighted Sum of Points



(n=14)

Source: FALIA Microinsurance Survey 2017

Note: Sum the points by ranking (1st gets 4 points, 2nd gets 3 points, 3rd gets 2 points, and 4th gets 1 point).

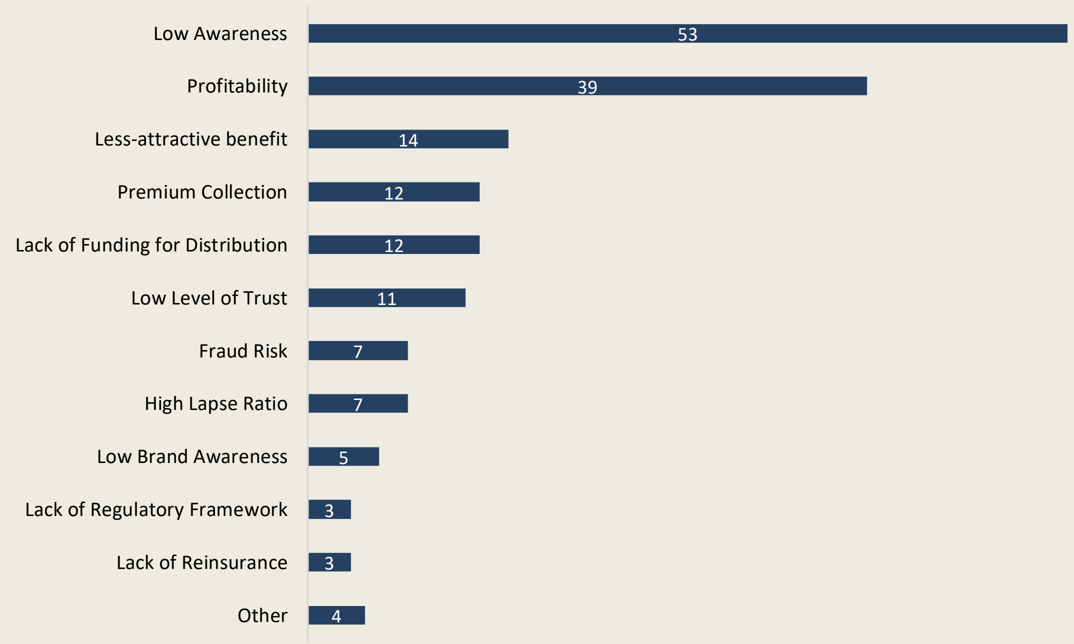
Key Challenges

Low awareness of life insurance among consumers is the biggest challenge by far in the selected countries (Figure 15). Insurance products are basically intangible; therefore, low awareness has been the foremost issue in the industry around the world[20]. As you will see in the next section, some recommendations for dealing with this problem include simple products, quick claim settlements, need-based product development, trusted channel partners, and an advocacy campaign in collaboration with regulators[21].

Due to the nature of this low-margin business, profitability is also regarded as a very serious issue in the selected countries. There are two ways to increase the bottom line: one is increasing the total amount of premiums and the other is reducing costs. To have a large customer base, it is necessary to have a large number of distribution channels and to enhance the purchasing power of customers by raising consumer awareness and/or increasing the value of affordable products. However, to reduce costs some insurers utilize the infrastructure of existing distribution channels and/or mobile technology as we will discuss later.

Overall, it can be said that there needs to be an integrated approach when dealing with these key challenges. In the next section, we will attempt to identify how each institution resolved such challenges based on our interviews with market sources.

Figure 15 —
Key Challenges — Weighted Sum of Points



(n=17)

Source: FALIA Microinsurance Survey 2017

Note: Sum the points by ranking (1st gets 4 points, 2nd gets 3 points, 3rd gets 2 points, 4th gets 1 point).

[20] Especially for the low-income customer who tends to have a low educational level.

[21] In the Philippines, PLIA has launched a financial-literacy program for secondary schools in collaboration with FALIA (2016)

Interview Results — Considerations

Objective and Methodology

We reviewed the survey results discussed in previous sections and identified the key success factors and challenges of the microinsurance industry in the selected countries. However, it remained unclear how respondents specifically dealt with such challenges, so we conducted interviews with experts from 30 institutions in the selected countries to identify how they work through challenges as they develop their microinsurance strategy.

In this section, we focus on four challenges[22] that microinsurance providers face: low awareness, profitability, relationships and regulations. The institutions and questioners are shown below.

Study Tour Period: 2017/06/25 – 7/5(Sri Lanka, Philippines), 7/23 – 7/27(Indonesia)

Sri Lanka (8)	Regulator	IBSL
	Private Insurer (Cooperative/Mutual)	Janashakthi, HNB, Sanasa, Amana Takaful, Ceylinco, Cooperative Insurance
	Other	JICA
Philippines (14)	Regulator/Association	IC, PLIA
	Private Insurer (Cooperative/Mutual)	CISP, NATCCO, CLIMBS, Country Bankers, BIMA, CARD-MBA, CARD Pioneer
	Other	RIMANSI, GIZ, ADB, IIAP, CaMIA
Indonesia (8)	Regulator	OJK
	Private Insurer (Cooperative/Mutual)	BRI Life, Allianz, Equity, Jiwasraya, Central Asia Raya, Panin-Dai-ichi
	Other	Takmin Working Group

Questions

1. Please give an overview of your microinsurance strategy (main products, distribution channels, etc.)
2. How do you overcome the issue of "low awareness of life insurance"?
3. How do you overcome the issue of "profitability" in terms of cost efficiency?

   (E.g. technology utilization, etc.)
4. Please briefly describe any strategies you use to maintain good relationships with stakeholders.
5. How does your regulatory environment affect the microinsurance industry in your country?
6. What is your perspective on the microinsurance industry in your country?

[22] Interviewees were asked about key success factors and other challenges of their microinsurance strategy.

Insurance Literacy

As we discussed previously, the biggest challenge of surveyed institutions is low awareness of life insurance. We therefore asked each institution about their insurance literacy strategy. Answers differ from institution to institution depending on their own strategies, but as seen in Figure 16, there are several common answers. These are:

- **Simple Products**

  Due to the limitation[23] of literacy initiatives for low-income people, products must be simple. Simple products like term life or accident products are very easy to understand for agents and customers. In addition, dissemination of simple compulsory products offers a good first opportunity for insurers to raise the consumer awareness of insurance.

- **Actual Experience (Rapid Payment)**

  The most effective and cost-efficient literacy initiative for low-income people is the actual experience of receiving a benefit. Also, word-of-mouth on the part of witnesses plays a large role in local communities. It is therefore necessary for insurers to pay benefits associated with compulsory products as soon as possible to gain the trust of consumers. Holding a ceremony for the payment is also effective.

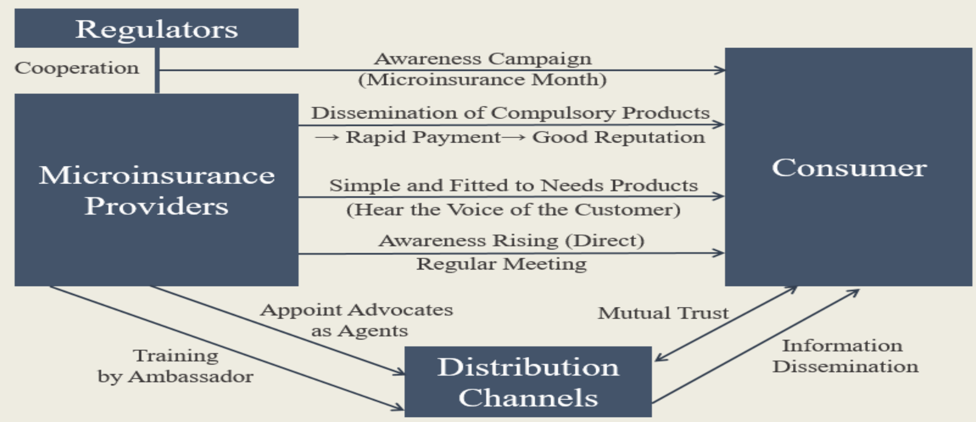
- **Appoint Trusted Agents in the Community**

  People living in the local community tend to believe in what trusted people tell them about insurance. Therefore, appointing trusted local people to explain the meaning of insurance is highly effective.

- **Products Tailor-Fit to Consumer Needs**

  Different approach is listening closely to the voices of customers before developing new products. This process reduces the time and effort necessary to explain the meaning of insurance when marketing a product, because customers already understand its value.

**Figure 16 —
Methods of Increasing Awareness**



Source: FALIA Microinsurance Survey 2017

[23] Some low-income people might not know the difference between injury and illness, if they have never been to a hospital.

- **Cooperation with Regulators**

  In many countries, supportive regulators often periodically conduct insurance literacy campaigns and promotion events. Therefore, joining such a campaign or event is one of the most cost-efficient way to raise the consumer awareness.

- **Through the Distribution Channel Partners (Indirect Method)**

  Regarding literacy initiatives, insurers covering all customers by themselves is sometimes costly. Therefore, many insurers train the field officers of partners who meet the customer directly. Some distribution channel partners hold monthly meetings for insurance literacy on behalf of insurers. In addition, field officers can increase awareness and sales needs synergistically when selling products or collecting premiums.

- **Direct Method**

  Some insurers hold monthly or weekly meetings to directly increase consumer awareness of insurance. Mutual associations or cooperatives tend to adopt this method. It is the most effective and reliable method, but for cost reasons, most institutions adopt indirect methods such as described above.

Recommendations for Insurance Literacy

Regardless of your business model, development of simple products and provision of compulsory products should be considered the first basic step to increasing insurance awareness. Also, all insurance providers should pay benefits as soon as possible[24] to achieve a good word-of-mouth reputation.

If your business model is partner-agents model, your insurance literacy strategy largely relies on your distribution channel partners. Therefore, you should choose highly trusted partners with whom you share a common vision and train them well.

If your business model is a mutual/cooperative model or delivering insurance directly to customers (in-house model), you can utilize your close relationship with the consumer. You should develop products which are tailored-fit to the needs of your customer and hold regular meetings in the community. It is also important to explain the benefit of insurance, as some consumers have a negative reaction to words like “death” or “illness”. It is therefore sometimes more effective to explain benefits in terms of “building wealth” to protect their assets, or “income guarantee insurance” to compensate income during hospitalization.

In addition, if you have technological advantages, you can utilize them to develop an automatic calling system[25].

Finally, regulators can support stakeholders by implementing advocacy campaign or awareness events. However, it is essential to keep in mind that awareness building measures should be sustainable and low-cost. Therefore, such measures should ideally be combined with day-to-day sales or the premium collection process.

---

[24] CARD MBA’s “1-3-5-day target” for claims settlements aims to pay benefits within 5 days and gains deep trust from the community.

[25] Allianz Indonesia developed an interactive voice response (IVR) system which sends a 1-minute voice message to customer mobile phones to explain insurance products.

Profitability Issue

According to our survey, the second largest issue in the selected countries is profitability. The microinsurance business is a low margin business inherently due to the small premiums. This fundamental issue therefore cannot be avoided if you decide to enter this market. We compiled answers from interviewees regarding this issue as shown in Figure 17. Main answers are:

- **Outsourcing to Partners**

  To reduce costs, some companies decided to abandon an in-house administrative policy. They chose to collaborate with stakeholders to combine each core competence among affiliated groups (forming an ecosystem). They pay a small amount of the administrative costs to their channel partners with whom they share the same values[26]. Furthermore, agents living in the same community as customers can reduce adverse selection risk and moral hazards which can adversely affect the claim ratio.

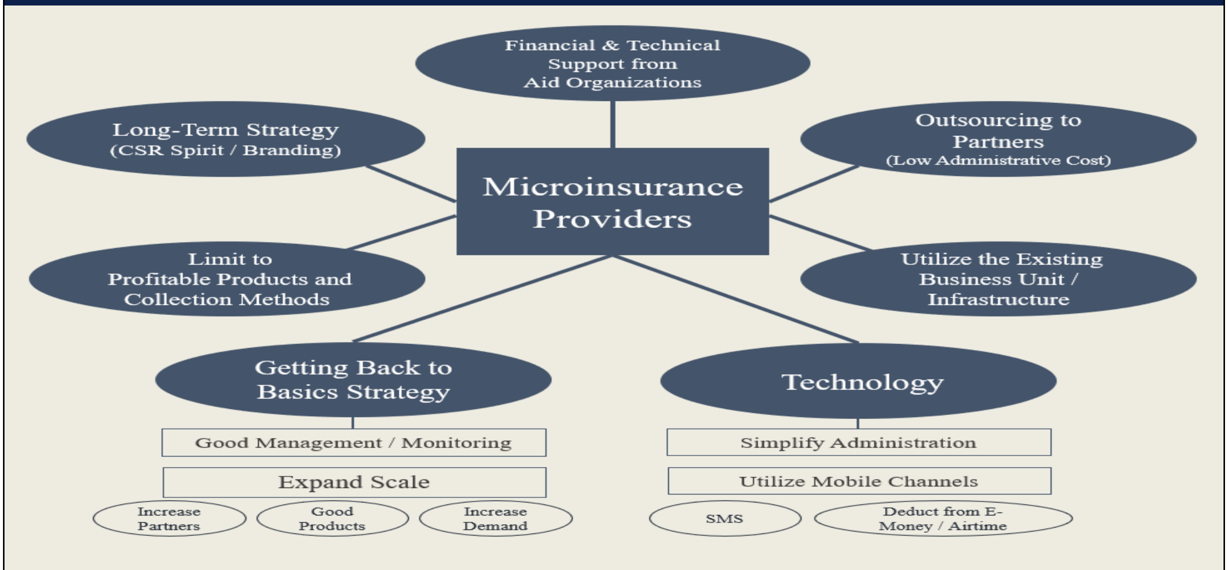
- **Utilize the Existing Business Infrastructure**

  As mentioned above, many companies utilize their existing infrastructure to reduce the additional cost of the microinsurance operational line. For instance, CARD MBA delivers its microinsurance program through its existing microfinance network. However, it is worth noting that some insurers emphasized that it is essential to establish a financially independent division for microinsurance business as a long-term strategy in order to make correct decisions quickly.

- **Limiting to Profitable Products or Premium Collection Methods**

  For more profit driven companies, it is enticing to only focus on profitable products at first to reduce the risk of loss. Major private companies tend to adopt this strategy. For instance, some private insurers deliver only single premium term life or fixed annual premiums for simple products through their group bank channels.

Figure 17 —
How to Increase Profits / Reduce Costs



Source: FALIA Microinsurance Survey 2017

[26] Delivering affordable products is impossible if agents require high commissions as an incentive to sell microinsurance.

- **Long-Term Strategy**

  On the other hand, institutions dedicated to microinsurance tend to have a long-term strategy. They seem more patient and can wait for break-even longer than other institutions. They place importance not only on profit but also on the benefit to the customer. In other words, they have a genuine CSR spirit[27] and branding strategy, believing that microinsurance customers will become profitable customers in the future. Some companies seem not to care so much about profit from their microinsurance business, and see this business within the context of a total relationship with partners. Such a confident attitude might need the financial backing of other business lines, but a "more haste, less speed" strategy must be true of the microinsurance business.

- **Financial & Technical Support from International Aid Organizations**

  There are many international institutions[28] to support the microinsurance business. They offer not only financial support but also technical support. Therefore, if possible, microinsurance providers should consult with these organizations especially when starting business.

- **Technology**

  Technology can reduce channel costs and administrative costs. Some companies reduce administrative work by utilizing technology to simplify the enrolment or implement paperless procedures. Other companies adopt mobile technology to collect premiums by deducting airtime or e-money[29] from mobile phone accounts. In addition, other companies deliver scratch cards which enable customers to activate a policy by sending a name (text) and registration number. More advanced companies create a partnership with wholesalers from whom customers can buy insurance benefits by accumulating a small amount of changes. Overall, there is no doubt that technology is a vital factor for a cost-efficient operation.

- **Back to Basics Strategy**

  The premiums of microinsurance products are affordable for low-income people to buy. Therefore, to increase profit, insurers must generally have a large customer base. That's where a getting back to basics strategy comes in. As previously discussed, insurance providers should increase partners (including new channels), develop good, affordable products, increase consumer awareness, monitor results and amend their strategy accordingly.

Recommendations for Profitability

Regarding this issue, there is no one right answer. The answer differs depending on your institution's philosophy, dedication, group architecture[30] and willingness to assume risk. If your institution is not patient enough to have a long-term strategy, it is rational to limit the range of microinsurance services you offer. If your institution is dedicated or prepared to enter this market earnestly, you should follow the advice already given as much as possible. In other words, do unremarkable things with unaccustomed zeal.

[27] Some companies implement ritual CSR initiatives for excusing them to regulators.

[28] For instance, WB, GIZ, ADB, RIMANSI and Takmin are delivering technical support.

[29] Allianz Indonesia deliver SIM card for mobile phone to deduct premium from e-money account.

[30] If your institution belongs to a financial conglomerate, the most cost-efficient method is to utilize a bank channel.

Good Relationships with Stakeholders

One of the characteristics of the microinsurance industry is that there are many stakeholders collaborating to deliver the products. Therefore, it's essential to know how to keep good relationships with all other stakeholders. Regulators play a big role in this. We therefore compiled the answers of interviewees from microinsurance providers point of view and from the regulators point of view as seen in Figure 18. Main answers from microinsurance providers are:

- **Get Trust from Distribution Partners**

  It is important to pay benefits to customers as soon as possible to gain trust form distribution channels. If partners are satisfied with quick claim settlements and convinced that providers are good companies, they are more likely to promote cross-selling.

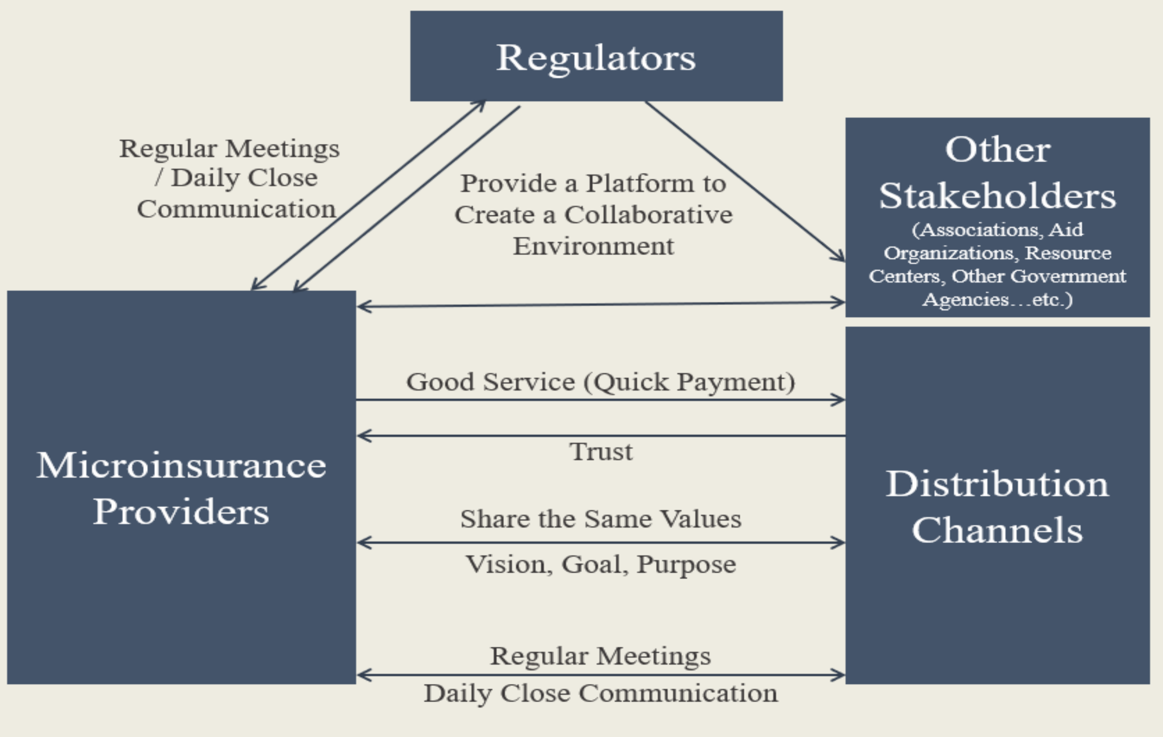
- **Share the Same Values/Vision with Distribution Partners**

  If you share the same values and vision with partners, you can focus solely on customers and easily establish more cost-efficient operations. If both you and your partners can believe in the value of microinsurance products for customers (that is mitigate risk and/or reduce poverty), your partners will not focus solely on the commission rate.

- **Regular Meetings and Daily Close Communication**

  Listening to the concerns of partners or exchange opinions frequently is the best way to share the value mentioned above and maintain good relationships. Some companies have monthly meetings with partners and others have annual meetings. Day-to-day close communication is also important for developing good cooperation with partners.

Figure 18 —
How to Maintain Good Relationships with Each Stakeholder



Source: FALIA Microinsurance Survey 2017

Main answers from regulators are:

- **Provide a Platform to Create a Collaborative Environment**

  Regulators act as facilitators to provide a platform for all stakeholders. They organize technical work groups and/or task forces to hear the voice of stakeholders. Then, they can formulate clear regulatory policies and offer solutions for many issues. Some regulators said that it is essential to invite as many stakeholders[31] as possible, including other regulators or concerned government agencies, to eliminate the divide between siloed functions. Especially in terms of insurance literacy, a collaborate environment is necessary to achieve a holistic approach.

- **Regular Meetings and Daily Close Communication**

  In the same manner as microinsurance providers with distribution channels, regulators also try to have close communication with microinsurance providers. Some regulators have quarterly meetings with the CEOs of each insurer to exchange opinions. Other regulators place importance on openness to the industry and accept requests to send trainers anytime.

Recommendations for Good Relationships with Stakeholders

As mentioned in the previous section, an integrated approach is indispensable to deliver microinsurance products. Therefore, microinsurance providers should share the common vision with their stakeholders through close communication to develop trust-based relationships and strategic collaboration. Such a strong bond can deliver great value more effectively with a customer-centric mindset.

[31] For instance, Non-life association, Takaful association, SEC (Securities and Exchange Commission), CDA (Cooperative Development Authority. HMO (Health Maintenance Organization).

Regulations

It is obvious that one of the key drivers of the microinsurance business in a given country is regulation. As mentioned earlier, the Philippines is the most advanced country in terms of microinsurance due to its supportive regulations (Figure 19). The Insurance Commission (IC) in the Philippines started to issue an IMC (Insurance Memorandum Circular) for microinsurance in 2006. Indonesia started a couple of years ago, and Sri Lanka is now preparing a microinsurance regulatory framework. The Philippines can therefore be said to be more than ten years ahead of other two countries in terms of streamlining its regulatory framework for microinsurance. As such, we can learn a lot from the Philippines as a role model in this section.

Figure 19 —
Major Microinsurance Regulations in Selected Countries

	The Philippines (IC)	Indonesia (OJK)	Sri Lanka(IBSL)
Definition (Limitations)	Premium / Benefit	Benefit	Under Preparation For New Framework
Licensing Requirement	Simplified procedures of licensing	Require only training	
Product Approval	Easy to understand (printed in English and/or Filipino and/or other major dialect), simple requirements, flexible frequency of collecting premiums	Relaxed (simple requirement / fast-paced approval process)	
Education Initiatives	TOMA (Training On Microinsurance Advocates)	Send trainers to communities and/or schools	
Consumer Protection	ADR	MBAI (No specific to microinsurance)	
Platform	Technical Working Group	Task Force	
Capital Requirement	Relaxed (Microinsurance≧50%)	Not Relaxed	

Source: Compiled from the materials of regulatory bodies.

As seen in Figure 20, the main roles of regulators are:

- **Definition of Microinsurance Products**

  Setting a benefit limit and/or premium limit might be the first step for regulators to consider regarding their definition of microinsurance. Then, defining/requiring other characteristics of products, such as simplicity or clarity of policy statements, comes next. OJK developed a standardized consortium term life product in cooperation with AAJI (a life insurance association).

- **Encourage Private Sector Participation**

  Deregulation for microinsurance providers must be set to encourage the participation of the private sector. For instance, relaxing capital requirements, licensing requirements for agents and admitting additional assets are relatively popular methods adopted by regulators. Formalization of microinsurance providers is also essential to increase the players in this market. In the Philippines, there are three options to sell microinsurance products. The first option is to have a partner-agent arrangement with insures. The second one is to join a cooperative insurance society (CIS) or mutual benefit association (MBA). The third one is to establish an insurance entity. By creating a tier for MBAs, the number of microinsurance providers has increased dramatically in the Philippines.

- **Consumer Protection**

  One of the main objectives of regulators is to maintain the balance encouraging the provision of microinsurance with consumer protection. The IC established ADR (Alternative Dispute Resolution) to settle disputes between microinsurance providers and consumers. Requiring quick claim payments and accountability for product bundling are also regarded as methods of protecting consumers. In Indonesia, regulators did not relax the capital requirement in fear of bankruptcy. In the Philippines, while licensing requirements have been relaxed, the roles and responsibilities of distribution channels have been clarified. Finally, monitoring[32] by regulators is essential to ensuring the protection of consumers.

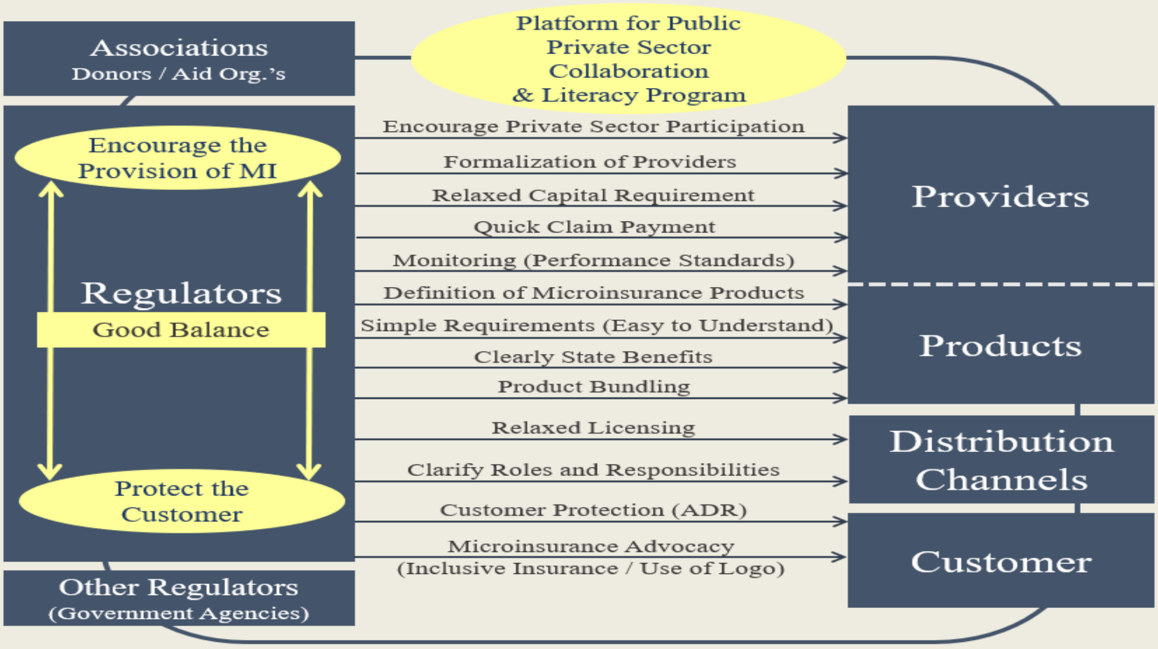
- **Provide a Platform to Create a Collaborative Environment**

  As mentioned previously, regulators act as facilitators to provide a platform for stakeholders. The Technical Working Group (TWG) in the Philippines is the most famous and successful in this regard. There is no border between regulatory divisions in discussing a wide range of matters including health insurance and agriculture insurance. There exists not only strong initiative of government for financial inclusion but also close communication in a bottom up approach.

- **Literacy Program**

  Many interviewees expressed their expectation for regulators in the consumer education area, because the impact of a literacy campaign by one company is limited. The IC established a microinsurance month as a promotion event, while implementing training on microinsurance advocates (TOMA) as a literacy campaign. OJK sends trainers to schools to educate students.

Figure 20 — Main Roles of Regulators



Source: FALIA Microinsurance Survey 2017

[32] The IC requires penetration rate, claim/rejection ratio…etc. as performance standards.

Recommendations for Regulations

There has been a trend towards the development of microinsurance regulations in many developing countries that aim to increase the insurance penetration rate. A political will for financial inclusion encourages this trend. As mentioned above, the bottom line is how to achieve a good balance between deregulation (relaxing regulations) and consumer protection. During interviews, most interviewees were satisfied with supportive regulations in their countries. However, some expressed an honest opinion that regulations were still too strict to achieve profit in the microinsurance business. For instance, some insisted that the cost of qualifying agents is too high, that reporting detailed data periodically is a big burden, that the approval process for set-products is very slow (strict), that limitations on the number of insurance providers adversely effects customer service, that politicians should pay more attention to the enhancement of microinsurance, and so on. Over-regulation incurs a high cost and causes discouraged players to withdraw from the market. Close communication among all stakeholders is therefore required. A platform established by regulators offers the opportunity for regulators to hear the voice of relevant institutions and to share the best practice of successful institutions.

Using a microinsurance logo is effective for marketing and raising consumer awareness (Figure 21). It gives customers an increased feeling of familiarity with microinsurance. Also, regulators can use these kinds of logos as certification marks for qualified microinsurance providers as well.

Finally, regulators should provide more incentives to the microinsurance providers who achieve some standards set by regulators. For instance, regulators can coordinate qualified microinsurance providers with new channels, like post offices, pawnshops, or convenience stores preferentially or involve them in the social security scheme[33] proactively to play a complementary role.

Figure 21 —
Microinsurance Logo in the Philippines and Indonesia (Takmin)

Source: IC and Takmin's presentation materials

[33] Some cooperatives or MBAs need more financial support (subsidy/tax benefit) from government.

Other Recommendations

We already covered the main issues (literacy, profitability, relationships, and regulations) in the previous sections. In addition to these topics, we asked interviewees about critical success factors as a final question. In this chapter, we look at some impressive answers. Common answers are:

- **More Focus on Customers**

  Some cooperatives and MBAs said that their core competence was the trust of their customers. They engage the customers through their strong network[34] with a sincere customer centered mindset. They have a strong commitment to communities, hence can understand low-income people and develop valuable products[35] as solutions for their needs. They therefore seem unafraid of volatile economic conditions or high competition in the future with other private companies. Engaging customers can be said to be more important than copying business models or products. Their relatively low labor costs and long-term strategies (in the case of companies that are not profit-driven) also contribute to their microinsurance business.

- **Typical Strategy to Enter the Microinsurance Market**

  Many private insurers still seem hesitant to enter this market due to its low margins. However, as discussed above, some successful companies that earn a sustainable profit do exist. Most of these private insurers entered this market by selling compulsory products like credit life or term life to get the large customer base necessary to achieve early break-even. Then, they aimed to increase customer awareness and gain trust from partners by paying benefits as soon as possible. This mutual trust becomes the catalyst for up-selling voluntary products. However, it is essential to keep in mind that this takes a certain amount of time and the next step should not be hurried. Timing is key factor and the insurers who enter this market earlier than other competitors can also get the benefit of being first movers[36].

- **Distribution is King**

  Many institutions cited distribution channels as a critical success factor for their microinsurance business (Figure 16). The reason is same as compulsory products mentioned above. This factor is needed to achieve enough scale for break-even. Therefore, insurers try to have as many affinity partners as possible which have customer pools. As mentioned earlier, from a cost efficiency point of view, operating a microinsurance business is generally impossible without an ecosystem consisting of excellent partners. Agents directly meet customers and can educate them, explain product benefits, and then persuade them to actually buy microinsurance products. Therefore, to have as many partners as possible that have the same values is definitely a critical success factor.

- **Keep the Right Strategy (Management)**

  There are many key drivers of the microinsurance business as mentioned above, but even more important is maintaining an appropriate strategy by regularly monitoring day-to-day business. Some insurers therefore insist that establishing a microinsurance-specific division is an advantage.

[34] Collection of voice of customer through a claim help desk (hotline) or systematic feedback mechanism.

[35] It is also important to offer choices for proactive selection by customers.

[36] Besides profit, the advantages for entering this market are increasing awareness of insurance and your brand, achieving CSR, and gaining a beneficial customer base to sell more profitable products in the future.

Furthermore, in this ever-changing market environment, close communication with partners and engaging customers are essential, such as through an “experimental lab” to adapt to new realities faster than your competitors.

- **Measures Against Fraud**

  Claim ratio is a serious factor that affects your profitability. Some consumers develop serious illnesses and then try to borrow money from MFIs. Therefore, measures to restrict moral risk (fraud) or adverse selection are important for a microinsurance business. Some insurers try to hire local agents living in the same community with customers to warm against fraud or try to sell products to the same group of microfinance borrowers (mutual observation). Other insurers check one in ten claims in some specific regions to send the message that insurers will sometimes investigate claims if necessary.

Case Studies

In this chapter, we take a look at some impressive institutions (interviewees) as case studies. We try to pick out the most impressive parts of answers; therefore, we will not cover the comprehensive strategies of each institution and some content from previous sections may be duplicated.

CARD PIONEER (The Philippines)

CARD Pioneer Microinsurance Inc. (CPMI) is a joint venture company between CARD and Pioneer to deliver microinsurance products. CPMI has recorded robust growth in the microinsurance business in recent years as seen in Figure 22. CPMI seems very confident of their business model and gave us a lot of insight through our interview during the compilation of this report. Their main strategies are:

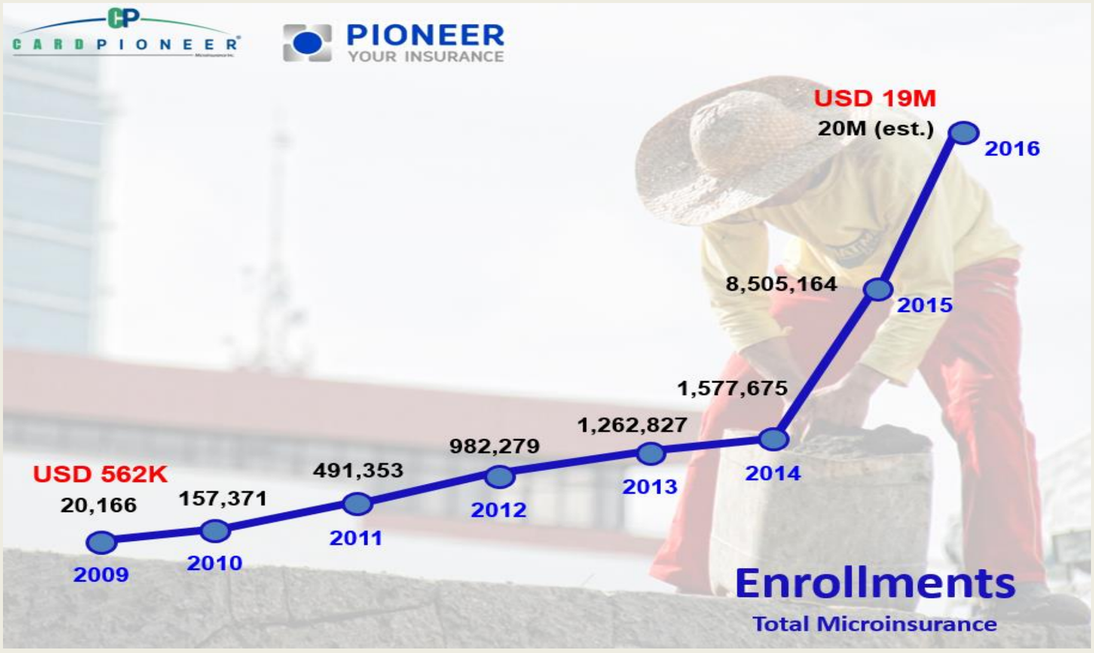
- **Not Cheap but Affordable Premiums**

  CPMI insisted that insurers should set affordable premiums instead of cheap ones for microinsurance products, because cheap premiums squeeze profit badly and make it impossible to achieve sustainable operations. Customers are willing to pay premiums if they find excellent value in a microinsurance product.

- **Close Communication with the Partners**

  CPMI has an "Immersion Program". In this program, an "ambassador" of CPMI stays in the community to spend the time with partners for a couple of days. Ambassadors can deeply understand the needs of partners and offer customized services through this program. They have a comprehensive talk with partners to seek out the sweet spot for premiums. For instance, if the premium seems too high for an annual payment, they divide it into quarterly payments. CPMI

Figure 22 —
Total Microinsurance Enrollment in CARD Pioneer



Source: CARD Pioneer's presentation materials shares the target number of enrollment or profit with partners as in a co-owner relationship. CPMI delivers not only brochures and/or collateral to partners but also an entire service program, including enrolment, claim settlement and agent training. Partners do not want to dissolve the relationship because they deeply understand the value of CPMI.

- **Customer First**

CPMI concluded from the analysis of past cases that focusing only on products is the biggest cause of failure (Figure 23). CPMI never develops new products before listening to the voice of customers. CPMI delivers packaged products based on actual customer needs. Furthermore, CPMI explains its products in a way that allows customers to easily perceive their benefit. CPMI established a microinsurance-specific organization to focus on each customer, trying to increase points of contacts with customers and listening to the voice of customers through their website or via SMS. When typhoon Haiyan hit the Philippines in 2013, CPMI not only paid out money as soon as possible but also sent staff to the affected area to hear the concerns of customers. CPMI strives to keep up with its ever-evolving customer base.

- **Organizational Risk-Taking and Autonomy**

CPMI achieved robust growth after establishing a microinsurance-specific organization on a stand-alone basis. This restructure enabled them to make decisions quickly and assume risk from a long-term point of view. It is necessary to understand that the microinsurance business model needs a longer period of time and larger scale to earn profit than the ordinary insurance model. With this understanding, CPMI has demonstrated that the microinsurance business is profitable given the right strategy.

**Figure 23 —
Right Strategy for Microinsurance Business**

Source: CPMI's presentation materials

Allianz Life Indonesia

Allianz Life Indonesia started its microinsurance business in 2008 by selling compulsory credit life. They started this business as part of CSR, but has been focusing more on profit recently. They received an award for best-selling microinsurance provider in Indonesia this year. Their main strategies are:

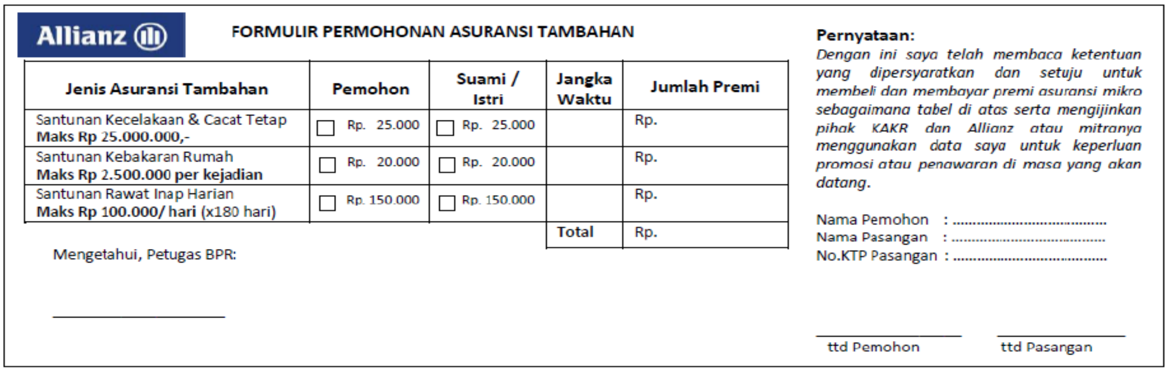
- **The Number of Partners is Vital**

  Allianz has 68 partners including MFIs, rural banks, cooperatives and NGOs and has achieved a scale of more than five million customers. Allianz's basic strategy places importance on the number of partners to increase accessibility by customers. Allianz delivers high value to customers and pays benefits quickly to earn the trust of its partners. Allianz Life stated that microinsurance business was not viable without an ecosystem to reduce costs.

- **Tick Box Method**

  Allianz developed simple affordable non-life products (with annual payments) in cooperation with Allianz General in 2013. The marketing method for these products is unique. Allianz delivers application forms in conjunction with loan applications[37] that allow customers to tick a box for their preferred coverage (Figure 24). For instance, customers can choose from the following tick boxes; ☐ Personal Accident, ☐ Property/Fire, ☐ Hospital Cash Plan. Field officers of MFIs naturally explain the benefit of additional coverage to credit life. This method paves the way from compulsory credit life to voluntary products smoothly with just a simple explanation.

Figure 24 —
Tick Box Enrolment



Allianz

FORMULIR PERMOHONAN ASURANSI TAMBAHAN

Jenis Asuransi Tambahan	Pemohon	Suami / Istri	Jangka Waktu	Jumlah Premi
Santunan Kecelakaan & Cacat Tetap **Maks Rp 25.000.000,-**	☐ Rp. 25.000	☐ Rp. 25.000		Rp.
Santunan Kebakaran Rumah **Maks Rp 2.500.000 per kejadian**	☐ Rp. 20.000	☐ Rp. 20.000		Rp.
Santunan Rawat Inap Harian **Maks Rp 100.000/ hari** (x180 hari)	☐ Rp. 150.000	☐ Rp. 150.000		Rp.
			Total	Rp.

Mengetahui, Petugas BPR:

Pernyataan:
Dengan ini saya telah membaca ketentuan yang dipersyaratkan dan setuju untuk membeli dan membayar premi asuransi mikro sebagaimana tabel di atas serta mengijinkan pihak KAKR dan Allianz atau mitranya menggunakan data saya untuk keperluan promosi atau penawaran di masa yang akan datang.

Nama Pemohon : ....
Nama Pasangan : ....
No.KTP Pasangan : ....

ttd Pemohon   ttd Pasangan

Source: "Escaping the Credit Life Trap" by Yoga Prasetyo

- **Advanced Technology**

  Allianz developed a term life product called "SECOTI". This product is integrated into the SIM-CARDs of mobile phones in partnership with MNOs. The premium is deducted from an E-Wallet account as mobile money. It is cost efficient and easy to explain to the customer, because a SIM-CARD is tangible. Another technology to be mentioned here is an automatic calling system called

[37] Some partners have concerns that integrating a tick box enrolment form that is fully integrated into a loan application form might be objectionable to regulators, and they tend to choose the separate stand-alone enrolment form.

"Interactive Voice Response (IVR)". Allianz sends a one-minute voice message[38] to the mobile phones of new customers. The message explains the benefit of the product. In terms of insurance literacy, it is more efficient than sending a text message.

- **Awareness Building Measures**

Allianz implements financial literacy training to the consumer in collaboration with its CSR division and also trains field officers. However, Allianz believes that increased awareness and product sales need to come hand in hand[39]. Allianz therefore places more importance on disseminating credit life[40] and utilizes the opportunity to explain the benefit of products using the "Tick Box Method" or "Interactive Voice Response".

- **Long-Term Strategy**

Allianz basically has a social spirit for financial inclusion and poverty reduction and they can see the lifetime value of customers in the long run. Microinsurance customers could be beneficial in the future due to their branding strategy. As mentioned earlier, their good patience (financial soundness) with low margins is a critical success factors for the microinsurance business.

[38] For instance, voice message says "Congratulation. You are now an Allianz customer. The benefits of your insurance product are …".

[39] During some literacy campaigns, it sometimes happened that customers wanted to buy insurance products but there were no products to sell at the site.

[40] "Credit life plus" has additional payouts on top of debt settlement, allowing customers to realize the great value of insurance.

BIMA (The Philippines)

BIMA is a Swedish company that uses mobile technology to deliver microinsurance products in emerging markets starting from 2010. BIMA builds partnerships with MNOs and uses its technology platform to digitalize registration and automate premium payments. BIMA delivers term life, personal accident, hospital cash[41], education, unemployment and entire family insurance. BIMA has 30 million subscribers and 3,500 agents in 14 countries (Figure 25). Their main strategies are:

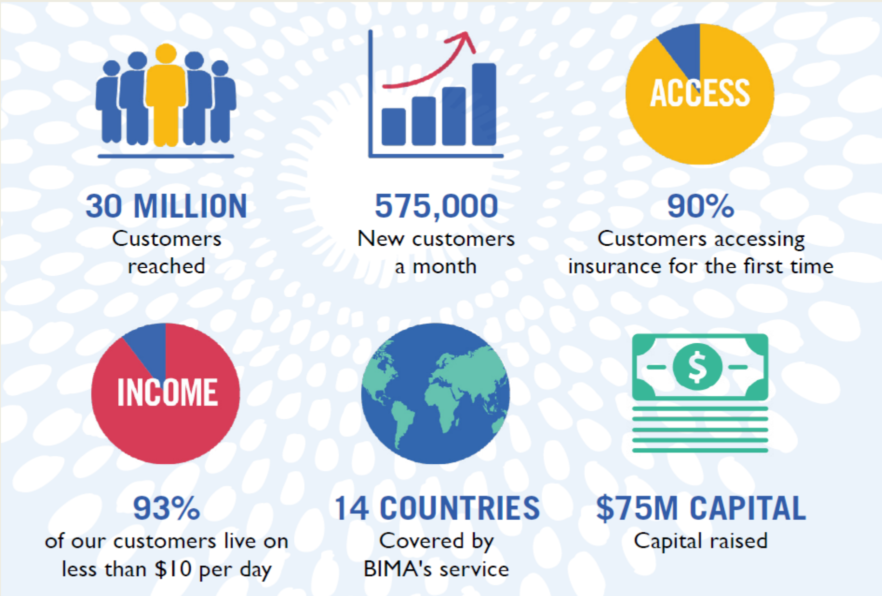
- **Combine Mobile Technology and Agent Force**

  BIMA's core business model is not only selling microinsurance through mobile technology but also using its dedicated microinsurance agent force to educate 100% of customers before purchase (Figure 26). This process is mandatory to reduce the lapse and surrender ratio. BIMA insisted that relying solely on technology was the biggest cause of failure in the past. Their dedicated agents are hired from the community and highly trained to communicate and educate customers. BIMA monitors conversations between agents and customers to manage quality. Premiums are automatically paid through mobile airtime, postpaid billing or mobile money as the customers top up or use their phone. Monthly premiums can therefore be divided on a daily basis (airtime credit), creating affordability. Customers can enroll in or cancel a policy (in under two mins) by texting a short message and claims can also be settled by texting.

- **Devote Human Resources to Build a Network with Customers**

  BIMA devotes management resources mainly to their employees or agents rather than conducting an advertising campaign. BIMA concluded that the effect of advertising lasts less than a couple of months. Their differentiated strategy therefore focuses on people, such as their 3,500 agents, who can talk with customers directly and earn customer trust.

Figure 25 —
Overview of BIMA's Operations



Source: BIMA Fact Sheet 2017

[41] Customers can get personalized health advice through "Tele-Doctor" service.

- **Flexible Model**

BIMA has a core business model as mentioned above but can adjust their role depending on the conditions of each market. BIMA is an agency in one country and a broker in another. In Cambodia, BIMA is an underwriter due to relaxed regulation there (capital requirement). In the Philippines, BIMA acts as an agency (or administrator/coordinator) by offering a technology platform to combine insurance provider (Pioneer) and MNO (Telecom). The number of affiliated insurance providers[42] differs in each country depending on local regulations.

- **CSR Spirit**

Through the interview, BIMA seems not to be a profit-driven company. BIMA explained their founder has a social spirit for reducing poverty. BIMA doesn't deliver compulsory credit life[43], because they want to pay the benefit to the bereaved family rather than lenders. As such, BIMA has developed the type of long-term strategy[44] necessary for success in the microinsurance business.

Figure 26 —
Combine Technology and Agents

Source: BIMA's presentation materials

42 BIMA tries to offer the best price to the customers by comparing the prices of multiple insurance providers.

43 BIMA utilizes mobile to get the large customer base instead of relying on compulsory credit life.

44 BIMA can wait for break-even longer than other competitors.

PT Equity Life Indonesia

Equity started to deliver microinsurance products in 2014. Their main microinsurance products are term life, accident and credit life. Equity has more than 50 bank partners[45] who sell microinsurance products. Premium volume is still relatively small compared to other business lines, but Equity foresees huge potential in this segment and strives to increase profit by encouraging technological innovation. Their main strategies are:

- **Raising Awareness by Experience of Payment**

  Equity's business model is the B to B to C model. They therefore do not have any direct consumer literacy program. Equity places importance on paying compulsory credit life as soon as possible. As discussed before, Equity believes that the experience of receiving benefits is much more effective for insurance literacy in the community of low income people than the mere explanation of products. Customers might easily forget the explanation of insurance in couple of months, while one's experience of receiving a payment could spread very fast in small community through word of mouth[46]. They therefore pay benefits within three days[47] of receiving claim documents.

- **Sharing the Same Vision with Partners**

  Within the B to B to C model, sharing the same vision with partners who meet the customers is a key success factor. If insurers can share their vision and values with partners and build mutual trust like husband and wife through close communication, they can focus solely on customers without any conflicting concerns. Therefore, Equity tries to choose partners who have the same vision to reduce operational costs. Furthermore, paying benefits quickly is also a good opportunity to gain further trust from partners. Equity places importance on the total win-win relationship with banks, including its other business lines, instead of merely focusing on profit from its microinsurance business.

- **Technology Innovation**

  Equity is well known for its advanced technology for cost-efficient operations. Equity utilizes SMS for enrollment and claim settlements in partnership with MNOs. Premiums can flexibly be deducted from E-money[48] accounts and this system realizes the sustainability (renewal) of insurance policies. Equity recognizes sustainability is just as important as acquiring customers. Also, Equity formed a partnership with Lotte Mart Wholesale to deliver microinsurance products to its 70.000 members. In this program, customers can buy life insurance (Term life) at the cashier through the accumulation of small change. This makes it convenient for customers to get rid of their small changes as well as for the wholesaler that does not need to have small change ready. Equity continues to seek technology innovation to adapt the new reality.

[45] Other partners include MNOs, wholesalers, leasing companies and consumer financing companies.

[46] Equity explained that beneficiary testimonies in its literacy materials is also impressive and effective.

[47] Equity pays less than US$100 within 1 day after claim document are submitted.

[48] The problem is that the balance is sometimes insufficient to deduct the premium.

Insurance Commission (The Philippines)

The final case study is the regulator in the Philippines. The microinsurance market developed dramatically in the Philippines mainly due to its supportive regulatory environment (Figure 27). There exists a clear national strategy for financial inclusion as the backdrop for microinsurance development. The Philippines development plan (2011-2016) declared inclusive growth and poverty reduction through promotion of financial services in unserved and underserved areas of the country. Furthermore, the Insurance commission (IC) aims to provide an opportunity for every Filipino to secure insurance protection by 2020. As mentioned in the section on regulations, the IC appears to be the best practice model of a regulator as they follow almost all critical points mentioned there. They might include some duplications but their main strategies are:

- **Clear Regulatory Policies**

  As seen in Figure 28, the IC defines microinsurance products as having premiums of 7.5% of the current daily minimum wage rate in Metro Manila and having benefits of 1,000 times the daily minimum wage rate in Metro Manila. In addition, the IC demands that policy contracts are easy for customers to understand. Furthermore, the IC defines who is a microinsurance provider and who can solicitate or distribute microinsurance products. All in all, these clear policies in the early stages laid a solid foundation for the development of microinsurance in the Philippines.

- **Formalization**

  The IC created the MI-MBA tier in 2006, and defined which entities can underwrite and distribute microinsurance products in 2010. These initiatives for formalization facilitated private sector participation and accelerated the further development of the microinsurance industry as seen in Figure 27.

Figure 27 —
Microinsurance Development in the Philippines

	2010	2012	2014
Coverage	3.1 million individuals	19.8 Million	31.1 million
Products	Mostly credit life	119 MI products (69 life, 50 non-life)	162 registered products (81 life 81 non-life)
Mi-MBA licensed	6	18	22
Commercial Companies with Mi Business	Few commercial insurance companies with Microinsurance products	52 insurance companies	42 insurance companies (18 life and 24 non-life)
Mi Agents	No MI agent category	125 (26 RBs, 96 individuals)	170 (48 RBs, 122 individuals)

Source: The Policy and Regulation for Microinsurance in the Philippines — Insurance Commission

- **Technical Working Group**

  As mentioned above, a favorable policy environment exists in the Philippines. A strong national strategy for financial inclusion brought together a wide range of regulators and government agencies. There are also many donors and international aid organizations operating in the

Philippines, like ADB-JFRP[49], GIZ and WB. Under these circumstances, it is notable that the Technical Working Group (TWG) played a large role in forming a collaborative environment among many stakeholders. This scheme encourages vigorous discussion among stakeholders and achieves public-private partnerships in many tasks. For instance, the TWG issues many papers[50]. Also, regarding the "Health Microinsurance Framework", joint members are GIZ-RFPI Asia, DOF-NCC, IC, DOH, AHMOPI, RIMANSI, CISP, CLIMBS, PLIA and PIRA. Generally speaking, health insurance is difficult product for private insurers to deliver as microinsurance due to its complexity and less-profitability. But in the Philippines, private sector can supplement and add value to the government's universal health coverage program (PhilHealth), by barrier-free public-private collaboration/coordination.

- **Tailored Regulations for Each Sector**

The IC designed detailed regulations for three categories: micro-pre-need, micro-agriculture, and micro-health. In each sector, The IC carefully listened to multi-stakeholders[51] through the TWG and established a vision, a regulatory framework, the roles of providers and distributors, public-private sector collaboration, settlement of disputes, an awareness program and monitoring. This deep-insight approach enables more feasible regulation and fosters the innovation of new products.

- **Literacy Program**

TOMA [52] (Training on Microinsurance Advocates) is also a unique initiative in the Philippines. The IC provides this awareness campaign in many cities in conjunction with ADB, LGUs (local government units) and the private sector. According to the paper "A Roadmap to Financial Literacy on Microinsurance", the strategies to be pursued are 1. Using mass media and community media, 2. Increasing the capability of key stakeholders to ensure the sound provision of microinsurance products and services by conducting seminars, training, and workshops including exposure visits, 3. Institutionalizing activities on financial literacy within major stakeholders, 4. Establishing networks and links between and among support institutions engaged in the financial literacy campaign, and 5. Establishing a critical mass of advocates on financial literacy in both the government and private sector. The IC produced a marketing logo as mentioned before and established January as the month for microinsurance. The increasing number of policy holders in the Philippines also contributes to increasing the awareness of insurance in a virtuous cycle.

- **Consumer Protection**

The IC established the ADR for microinsurance to help settle disputes. They designed the process for each provider-MBAs, CIS, and life and non-life private insurance providers. Consumer protection[53] is imperative to encourage the sound development of the microinsurance market.

[49] Asian Development Bank-Japan Fund for Poverty Reduction.

[50] For instance, "National Strategy", "Regulatory Framework", "A Roadmap to Financial Literacy on Microinsurance", "Alternative Dispute Resolution Framework", "Enhanced Regulatory Framework", "Micro Pre-Need Framework", "Agriculture Microinsurance Framework", and "Health Microinsurance Framework". These papers were issued with circular letters.

[51] For example, in the micro-agriculture framework, the IC collaborates with HMOs (health maintenance organizations) and Philhealth.

[52] In this program, the last day usually includes an open forum with the public about microinsurance and insurance in general.

[53] Claims should be paid within 10 days.

Monitoring

The IC evaluates microinsurance providers based on performance standards[54] to maintain the quality of operation of providers. This monitoring and reporting system also contributes to the sound development of the microinsurance market.

Figure 28 —
Microinsurance Regulatory Framework and Strategies in the Philippines

	Regime1 (2006－)	Regime2 (2010－)	Regime3 (2015－)
Product Definitions (Limitation)	Premium limit to 10% of daily wage Benefit limit to 500x of daily wage	Premium limited to 5% of daily wage Benefit limited to 500x of daily wage 2014－ Premium limited to 7.5% of daily wage Benefit limited to 1000x of daily wage	
Product Approval	・Policy contracts must be easy to understand, have simple requirements, and flexible frequency of collecting premiums	・Printed in English and/or Filipino and/or other major dialect ・Clearly state the future services, monetary consideration and other beneflts	
Formarization of Providers/Reinsurers	・Created the MI-MBA tier having a minimum capitalization of 5 million Php	・Entities that can underwrite and distribute (Provided optionsto formalization)	・Provides guidelines on reinsurance of microinsurancerisks
Capital Requirement		・Reduction of the minimum paid-up capital requirement of commercial companies to 50% = at least 50% of their production in microinsurance	
Distribution Channels (Licensing Requirement)		・Simplified procedures of agent licensing through accredited training entities ・Separation of banking businessfrom microinsurance solicitation	・Establishes involvement in the business process/value chain of regular agents, general agents and brokers
Consumer Protection		・Claims should be paid within 10 days ・Rules on product bundling (emphasized the requirements of financial literacy and consumer protection) ・ADR	・Extends the provisions of product bundling, highlighting accountability of lead insurer
Riteracy Program		・TOMA (Training On Microinsurance Advocates)	
Monitoring		・Parameters for performance standards	
Circulars / Memos	・Microinsurance Regulation & Declaration of Policy Objectives (IMC 9-2006)	・Government's Policies on Informal Insurance Activities and Formalization of Informal Insurance Activities (IC-CDA-SEC 01-2010 & 02-2010) ・Regulation for the Provision of Microinsurance Products and Services (IMC 01-2010) ・Approval of Training Programs and Licensing (CL 6-2011) ・Marketing, Sale and Servicing (BSP Circular 683)	・Regulation for the Provision of Microinsurance Products and Services(IMC 2015-54)
Technical Working Group Paper (CL)		・National Strategy ・Regulatory Framework ・A Roadmap to Financial Literacy on Microinsurance ・Alternative Dispute Resolution Framework	・Enhanced Regulatory Framework ・Micro Pre-Need Framework ・Agriculture Microinsurance Framework ・Health Microinsurance Framework

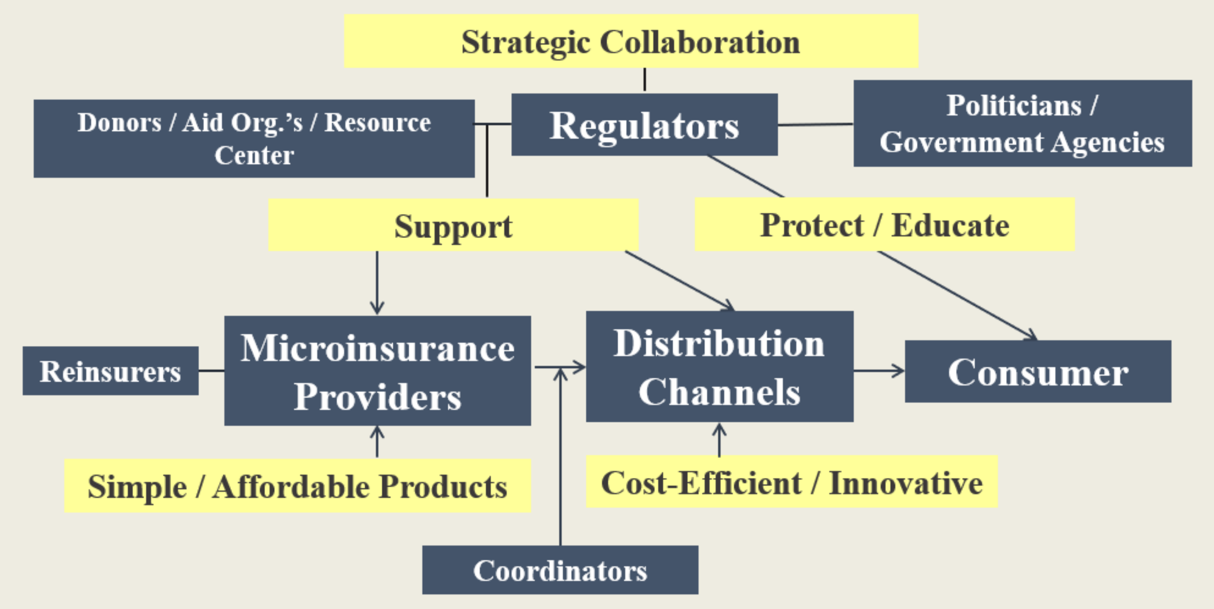
Source: Compiled from presentation materials of the IC

[54] This includes penetration rates, claim rates, claim rejection rates and so on.

Conclusion

This report focuses on three countries to identify current trends in the microinsurance market in Asia and extract some general recommendations for microinsurance providers. While most private insurers are still suspicious of the profitability of the microinsurance business, and hesitate to enter this market, some insurers have already succeeded in proving that microinsurance is profitable. Some common critical success factors exist among these successful insurers. Overall, a supportive regulatory environment, cooperative relations with stakeholders, cost-efficient/innovative distribution channels, increasing consumer awareness and simple/affordable products that match consumer needs are the main driving forces in developing microinsurance business (Figure 29).

Figure 29 —
Integrated Approach (Ecosystem)



Source: FALIA Microinsurance Survey 2017

While such an integrated approach (collaboration) is necessary to a microinsurance strategy, we dare to emphasize three points as being the most important critical success factors. First is the trust of the consumer. Trust can overcome most challenges of the microinsurance business as shown previously. It necessarily takes a certain amount of time to build the trust of the consumer, but once you establish a large customer network based on trust, it can be said that you have acquired the most powerful weapon to battle such challenges.

The second important factor is a truly customer-centric mindset—in other words, "integrity". You may have heard the story of Prudential Financial (U.S). Prudential was established in 1875 and sold affordable insurance to the working class for the first time in the U.S to provide funeral expenses with some weekly premiums as low as three cents[55]. In ten years, the customer base rapidly expanded to the middle class and Prudential's assets reached US$1 million. MetLife[56] also started "industrial" or "working man's" insurance programs in 1879. These programs delivered small face value insurance with affordable weekly or monthly premiums. In 1880, sales had exceeded a quarter million of such policies, resulting in nearly US$1 million in revenue from premiums. This social spirit, or customer-centric mindset, definitely laid the foundation in the early years for the further growth of these two giant global insurers. These founding stories teach us a lot about how to gain the trust of customers.

Finally, in VUCA (Volatility, Uncertainty, Complexity and Ambiguity) market environments, it is impossible to find a one-size-fits-all formula. Microinsurance providers need to learn faster than their competitors by regularly implementing a "Plan-Do-Check-Act" (PDCA) cycle to constantly seek optimal business models and encourage innovation to adapt to new realities.

[55] The book "Three Cents A Week" recounts a history of The Prudential Insurance Company of America up to about 1975.

[56] In 1909, MetLife announced that "insurance is not merely as a business proposition, but as a social program," and hired social worker Lee Frankel. He established a welfare division to prevent tuberculosis as a public health campaign and also started a "visiting nurse service" program.

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