

The background of the book cover is a photograph of an elderly woman from behind, wearing a bright green patterned sari and a black crop top. She is standing on a concrete step in front of a blue-painted wall and a wooden door. The wall has some peeling paint and a small red mark. The woman is looking down at her feet.

SAVING THE NEXT BILLION FROM OLD AGE POVERTY

global lessons for local action

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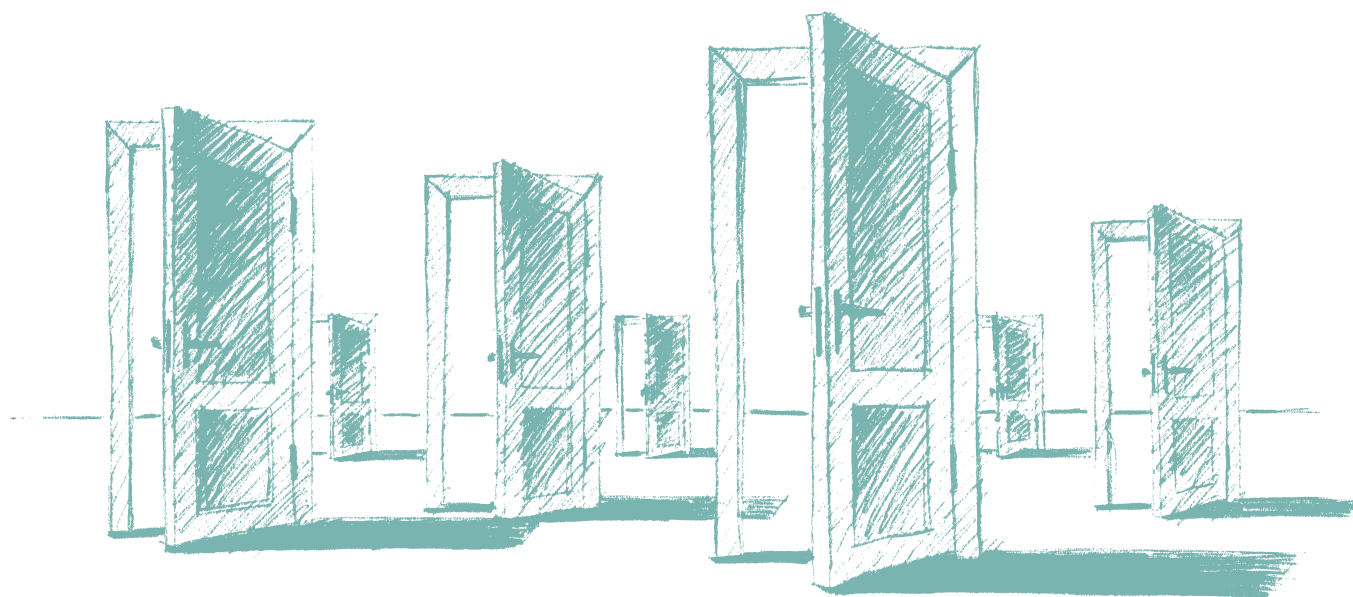
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19

BUILDING A MASS-MARKET FOR
MICRO-PENSIONS

LEARNINGS FROM MICROINSURANCE

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INTRODUCTION

The market for voluntary long term contractual savings products aimed at low-income clients appears beset by market failure. There seem to be large numbers of low-income clients willing and able to pay for [these] products, but yet are unable to obtain them. When they do manage to make a product purchase, the products, often prove to be of disappointingly poor value.

Roth, Rusconi, and Shand (2007)

As the quote above indicates, offering long-term savings products to low-income workers, particularly those in the informal economy, is a worthy aspiration fraught with seemingly intractable challenges. This chapter will introduce the experiences of five insurance companies that have endeavoured to provide insurance and savings services to the low-income market to illustrate the challenges involved, while extracting lessons that are relevant for voluntary contributory pension and retirement products.

This chapter begins with an introduction to endowment products, a type of insurance product that has a savings component. The second section presents the five case studies in some detail in order to highlight relevant lessons from their efforts to serve the low-income market. The third section then synthesizes the key lessons, particularly focused on product design and distribution. The chapter concludes with a set of recommendations for the development of micro-pension products.

WHAT ARE ENDOWMENT PRODUCTS?

An endowment product is a life insurance contract that includes both a risk and a savings component. It pays a lump sum when it reaches maturity, which is usually after 10 or 15 years. The lump sum typically includes a guaranteed amount, the sum assured, plus some form of return or bonus based on the insurer's investment returns. If the policyholder dies before the end of the term, then the product pays the face value of the policy to the beneficiary plus any bonuses earned to that point. In some cases, the insured event also includes the diagnosis of a critical illness such as cancer.

There are several features of these products that are potentially attractive for the low-income market. In contrast to pure risk insurance products, like term life, an endowment product accumulates value over time, which enables the poor to have something to show for their premiums if the risk event does not occur. Indeed one of the main challenges in selling insurance, especially to persons with limited disposable income, is that they feel as though they have wasted their money if they do not claim. With an endowment product, they actually do have something to show for their premium payments at the end of the term. As such, these products are often marketed for a particular savings purpose such as

education or marriage, as these are savings objectives for which the policyholder would like a lump sum at some point in the future, and even if they die they want to make sure that the sum is available.

Another potentially attractive feature is that endowments can be cashed-in before the end of the term for its surrender value, which depends in part on how long the policyholder has had the policy, whether premiums have been paid regularly, and any investment returns accrued. Often, it is not possible to cash-in the product during the first two years, and during the early years of a policy, the surrender value is very low because the sales commissions and perhaps administrative costs are typically front-loaded. But once the product has some value, if the policyholder needs money but does not want to surrender the endowment, they can often borrow against the surrender value. This creates a potentially versatile financial instrument that combines savings, credit and insurance.

Despite these attractive features, endowment products are also exposed to significant criticism, particularly about the lack of value that they might provide to low-income households. These criticisms include the following issues:

- **Vulnerable to lapses:** An important characteristic of low-income households, particularly those with breadwinners in the informal economy, is that they have irregular incomes. Consequently, they may have difficulty making regular premium payments, and therefore their policies frequently lapse. Once they lapse, some endowment policies are difficult to bring back into force.
- **High administrative costs:** Because this is typically a product that needs to be actively sold, it requires an agent to explain the product, provide advice and enrol policyholders. A big portion of the agent's compensation is in the form of a commission, which is paid up front. As these expenses are front-loaded, there is often no surrender value for the product during the early years of the term.
- **Mis-selling:** Related to the structure of sales commissions, is the risk of mis-selling, to which less educated market segments are particularly vulnerable, but which is also seen repeatedly in developed markets.
- **Opaque (and confusing) benefits:** Mis-selling is also exacerbated by the fact that endowment policies are complicated products. Usually the product's value is not guaranteed, but rather depends on the investment returns that the insurer manages to earn. The results can appear capricious, as policyholders have difficulty discerning why they receive higher bonuses in some years than in others.
- **Economic inefficiency:** Because of the high administrative costs, and low-risk investment strategies typically undertaken by insurers, a savvy investor would likely be better off separating the two elements, putting aside savings on a regular basis and spending a small piece of that for term insurance. For low-income households, however, such solutions might not be readily available.

Tackling these challenges is one of the core motivations of this volume – setting out how the best insights of financial inclusion and pension coverage, governance and investment can be combined to create a powerful new approach to some of the toughest questions in tackling old-age poverty.

CASE STUDIES

This section considers five examples of endowment products, or similar savings plus insurance schemes, which have been offered to low-income households. In several of these examples, the products were designed to overcome some of the criticisms associated with endowment products. Unfortunately, none of these experiences could be labelled an unqualified success, and some were failures. But each of them generated valuable insights that are quite pertinent to the provision of micro-pension products.

CASE STUDY 1

DELTA LIFE, BANGLADESH¹

When it started in the mid-1980s, Delta Life's initial products consisted primarily of endowment policies targeted at Bangladesh's middle and upper classes. However, the organisation's founder, Shafat Ahmed Chaudhuri, soon recognised that Delta needed to innovate if it was going to be relevant to the majority of the population in Bangladesh. Inspired by the growing success of the Grameen Bank and other microcredit schemes, Delta launched its own experiment, Grameen Bima or village insurance. Initially, the design for Grameen Bima called for collaboration with a microcredit organization that provided the delivery structure for Delta's endowment product. This partnership dissolved after a short time because of a difference in objectives. Delta then developed its own delivery network and quickly realised the benefits of selling its own policies. Subsequently, it developed a similar endowment product, Gono Bima, for low-income households in urban areas.

In 1991, imitating the country's microcredit industry, the company began introducing loans to complement the endowment policy. Unlike loans against the surrender value of the product, these loans were unsecured through a group lending format. These "project" loans were intended to stimulate additional income for policyholders, which would help to promote their economic development and thus make it easier for them to pay their insurance premiums. Over time, this approach proved disastrous. Repayment fell to about 50% and Delta was left with a significant loan loss.

In the mid to late 1990s, Delta Life's microinsurance programmes experienced astonishing growth, fuelled in part by the market's interest in accessing a project loan. Together, Grameen and Gono Bima grew from less than 40,000 new policies issued in 1994 to more than 450,000 policies issued in 1998. As the decade came to a close, however, Delta felt

¹ This case study was adapted from McCord and Churchill (2005).

the effects of this reckless growth. The rapid expansion revealed significant weaknesses in information systems, internal controls and administration.

Profits were also slow to come, or at least that was the impression. In 2002, Delta's board decided to spin off Gono and Grameen Bima into a non-profit company. However, after an actuarial report later that year showed that the microinsurance projects were actually contributing to profits, in part due to high lapse rates, it was decided to retain the projects and reorganise them for greater efficiencies. A reengineering of the microinsurance operations in 2002 and 2003 included improving internal controls, upgrading information systems to provide better analytical information, developing staff incentive schemes, implementing variable premium payment frequencies, decentralizing claims processing, and eliminating the micro-lending activities.

Over the years, Delta's social motivation evolved into a commercial motivation, benefiting the company as well as its roughly one million poor customers. Along the way, Delta Life learned a number of valuable lessons, many of them the hard way.

INSTITUTIONAL ISSUES

- Delta has shown that it is possible for an insurance company to create its own distribution network to sell voluntary, individual insurance policies directly to the low-income market. This distribution approach has not been replicated elsewhere, with the possible exception of the Life Insurance Corporation (LIC) in India, which had the advantage of being a state-owned monopoly for many years.
- Insurers have to focus on their core competencies. Although Delta's project loans were heralded as an accomplishment in the late 1990s, after a few years of reflection (and mounting bad debts), they are now seen as a major failure.
- Microinsurers should not overlook the critical importance of leveraging technology, especially to manage large volumes of small policies. Effective management of an insurance business depends on timely and accurate information to price products appropriately, pay claims expeditiously, manage staff effectively, and monitor performance carefully.
- When money is involved, fraud will not be too far behind. Careful attention should be given to internal controls, ideally before an organisation pursues exponential growth.

PRODUCT DESIGN AND DELIVERY

- Endowment policies may be appropriate for the risk-management needs of the low-income market as they provide life insurance protection while allowing the poor to gradually build up assets. However, persons with limited means have a short term outlook. Products that allow policyholders to access savings sooner and more regularly (though still in the medium term) are most popular.
- The assumption that microinsurance policyholders must pay weekly premiums proved not entirely correct. The cash flows of low-income households are not just variable;

they are also heterogeneous. To meet the needs of the market, it is necessary to offer a range of premium payment options and face values.

- It is difficult to have simultaneous savings, credit and insurance relationships with customers. For example, field workers who sell endowment policies approach premium collection in a softer and less aggressive manner than when collecting loan repayments, creating confusion for those who experience both.
- Distribution through other organisations means that the insurer does not have control over the priorities of the agents. An alternative—direct distribution—requires the insurer to have its own army of field operatives and the corresponding infrastructure, which significantly increases operating costs. The relative effectiveness of different distribution approaches requires additional analysis.

DISTRIBUTION AND MARKETING

- Effective staff compensation systems remain elusive. Microinsurance requires a unique sales culture that effectively marries a concern for clients' welfare with the commercial interests of the insurer. But how exactly can that be achieved? Delta's microinsurance division relies heavily on part-time workers who sell insurance occasionally on a commission basis. It is not clear that this is the most effective approach. This is why the Indian Fair Price Shop example set out in Chapter 16 is so compelling, showing that it is possible to leverage a payments infrastructure created for purchases of everyday household supplies and, hence, providing a way to cut through one of the fundamental barriers to effective distribution.
- Reward systems need to avoid causing undesirable behaviour, such as spurts of new policies at the end of a sales period, splitting one policy into two smaller ones to increase volumes, or the provision of unofficial rebates to new clients.

CASE STUDY 2

ALLIANZ, INDONESIA²

In India, all insurance companies are required by the regulator to have a portion of their business in the rural and social sectors, which often translates into microinsurance. Bajaj Allianz, the Indian joint venture between the German multinational insurer Allianz, and the Indian conglomerate, the Bajaj Group, embraced this requirement by designing relevant products for the low-income market. One of its most successful products was a five-year endowment product, Sarva Shakti Suraksha (securing and empowering everyone), that was introduced in 2008. By 2013, this product provided savings and insurance to more than seven million policyholders, before it was pulled from the market due to regulatory changes.³

² This case study is adapted from the learning journey of Allianz Life Indonesia published under agreement with the ILO's Impact Insurance Facility.

³ Concerns about exposing low-income households to higher risk investments cause the Indian regulator to stop insurers from issuing unit-linked products, which caused Bajaj Allianz and other insurers to withdraw products from the market.

Seeing the excellent results in India, Allianz's office in Indonesia decided to introduce a similar product in 2010. Target customers in Indonesia were expected to pay a premium of IDR 10,000 (USD 1) per week for 50 weeks per year. Two weeks per year were premium holidays. Over the five-year term, customers would thus accumulate IDR 2.5 million (USD 250) in premiums. When the policy matured, this IDR 2.5 million premium was returned to customers in full without interest or deductions, as long as no claim had occurred in the meantime. Customers were free to use the maturity benefit for any purpose, although it was marketed as a product to support children's education. The product name, TAMADERA, alludes to this objective as it is an abbreviation that means "building a prosperous future".

During the policy term, customers were insured for death due to all causes except suicide, and they were also covered for five critical illnesses: cancer, heart attack, stroke, kidney failure and major burns. Life insurance cover started after the first premium payment; the critical illness cover had a 90 day waiting period. To keep things simple, the benefit for death and critical illness was also IDR 2.5 million (USD 250). After a claim, coverage stopped and paid premiums were not returned.

TAMADERA was a voluntary product. Only active borrowers of the distribution partner, a local MFI named VisionFund Indonesia, and spouses of borrowers were eligible to join the program. Customers had the option to surrender their policy from the second year onwards whereby all paid premiums minus a 15% surrender fee are returned. The policy would lapse automatically after two consecutive non-payments of premiums.

Many of these design features were intended to overcome the low-income market's challenges with endowment products. For example the premium holidays were introduced to accommodate irregular cash flows of the target market; and the five year tenor was a recognition of the difficulty of the target market to plan for the long term. The very transparent and simple approach to the product features was an important effort to make the product easy to communicate, even by people who are not insurance specialists.

Despite these innovative and well-conceived efforts, the product was not successful. After 18 months on the market, less than 400 policies were sold, largely due to distribution challenges. The low volumes, and lower than anticipated returns on investment, forced Allianz Indonesia to discontinue TAMADERA. The effort, however, generated valuable insights that Allianz made publicly available through its collaboration with the International Labour Organization's (ILO) Impact Insurance Facility.

ON DISTRIBUTION

- The insurance distribution partner must have the capacity and willingness to make changes to accommodate the insurance products. An endorsement and verbal support from the distributor's management is not enough. The management must integrate the product into their vision, performance indicators and staff promotion criteria.

- Insurance must be properly integrated into the distribution channel's core business. Loan officers at VisionFund Indonesia were unsure when to best explain TAMADERA and when to push for enrolments. Moreover, loan officers reported that their workload was already high, which left little time for insurance.
- Tangible and meaningful incentives for sales staff must be in place. The insurer cannot bank on the intrinsic motivation of the distribution partner's field staff. Unfortunately, the client-centric design of TAMADERA resulted in very thin margins that did not allow for staff incentives. Allianz estimated that it would have had to pay at least 10% of the premium as commission to allow for meaningful incentives. Since that was not available, the staff perceived insurance promotion as an additional burden without seeing any benefits for themselves.
- Selling voluntary insurance requires different skills than selling credit or compulsory insurance. Despite intensive training, many loan officers did not feel confident about discussing insurance matters with their customers. Credit is in high demand and is thus much easier to distribute than either insurance or savings products that require multiple engagements to cultivate a demand.
- To sell long-term products, one must have the trust of potential clients. Clients indicated that they were not confident that VisionFund would be able to serve the community in five years, as many non-governmental organizations (NGOs) come and go.

FACTORS INFLUENCING PERSISTENCY

- Even simple processes will not be effective if they are not accepted by the staff. The majority of lapses with the product were due to problems in premium collection and data entry by the distribution partner and not due to the unwillingness of customers to pay the premium. This is why creating an auto-debit facility is an essential element in creating persistency – much in the same way that creating auto-enrolment into pension plans can be transformative where an employer-employee relationship exists.
- Frontline staff need on-going training to ensure that they understand and follow processes; just an introductory course is not sufficient.
- A strong connection between the payment of the loan instalment and the premium can negatively influence persistency when the loan terms end. VisionFund's average loan term is six months, whereas TAMADERA required a five year contribution flow. If customers did not take a follow-up loan, they may decide to lapse premium payments as well.
- Encouraging the sales staff to enrol had a positive influence on sales and persistency. By enrolling in the product, loan officers became a live testimony and credible ambassadors, as they had undergone the purchasing decision and enrolment process themselves.

- High account balances decrease the likelihood of lapses and increase persistency. Most lapses tended to occur after only a few premium payments. Once customers developed a premium payment routine and became proud to have accumulated a tangible account value, they valued the product more and continued to pay premiums.

ON PRODUCT DESIGN AND POSITIONING

- The capital guarantee and critical illness component made the product more attractive to clients. The rationale for adding the features was not only to offer customers absolute clarity about what to expect, but also to offer a living benefit. In Indonesia, talking about death touches on taboos, which make it difficult to sell life insurance. Critical illness coverage was meant to address this. The five illnesses included in the coverage were chosen because they are well known and easily understood.
- TAMADERA differentiated itself from informal savings mechanisms, its key competitors, through the critical illness component. Rotating savings and credit associations (ROSCAs), locally called *arisan*, are very common among VisionFund customers. Demand research and product acceptance testing revealed that at least 75% of prospective policyholders were members of one or more *arisan*s, and that on average they paid more than IDR 100,000 (USD 10) per month into such savings. Clearly, affordability was not an issue.

BENEFITS AND CHALLENGES OF TECHNOLOGY

- A web-based administration system can reduce transaction costs by automating manual tasks, such as paperless claim underwriting and premium payment reconciliation. Such a platform can handle huge volumes of data quickly and seamlessly.
- Automatic underwriting increases processing speed but can decrease underwriting quality. One feature of the platform used by Allianz was an automatic underwriting engine. If one or more of 18 health questions (Yes/No answers only) were answered “Yes”, then the system rejected the application. This rule was not communicated to loan officers. However, after high initial rejection ratios, they figured it out and rejections based on health issues became rare thereafter. Consequently, automatic underwriting based on predictable rules without proper onsite crosschecks did not enhance risk management, and actually decreased underwriting quality.
- An enrolment questionnaire with fewer questions would have been more effective. The length of the health questionnaire was prescribed by the reinsurance company. The project team reduced the number of questions from a much more extensive questionnaire, but it was still probably too long.

CASE STUDY 3

MAX NEW YORK LIFE (MNYL), INDIA⁴

As with Bajaj Allianz, another Indian joint venture, between Max Financial Services and New York Life, embraced the challenge of meeting its rural and social sector obligations with an innovative approach.⁵ In mid-2008, the company launched Max Vijay, an “unlapsable” endowment product that provided complete flexibility to policyholders as to when and where to make premium payments.

Max Vijay was a 10-year endowment policy with a minimum initial premium payment of INR 1,000 (~USD 15) and a maximum death benefit of five times the premium payments received in the case of natural death and ten times the premium received in the case of accidental death, up to a maximum of INR 50,000 (USD 750) for the cheapest variant. The Max Vijay policy specified that 60% of the initial payment and 90% of subsequent payments be invested in government securities and equities by Max New York Life, with the rest covering the premium for the life insurance component. Investment earnings were added to the policyholder’s account each year and were guaranteed by Max New York Life. Policyholders could start withdrawing funds after three years. Policyholders were required to pay surrender fees if they closed the policy completely, with fees declining over the life of the policy. After 10 years, the policy terminated and the account balance was paid to the policyholder as a maturity benefit. If the policyholder died before the end of the term but after six months of the effective date of coverage, the beneficiary received the account balance and the death benefit amount.

Market research on insurance purchasing revealed that the four main reasons cited by Indians for not purchasing insurance were: (a) high regular premiums, (b) fear of policy lapses, (c) aversion to health check-ups, and (d) dependence upon an agent (i.e. when the client moved or the agent departed, the link was broken).

Max Vijay was designed to overcome each of these challenges. The policy could be “topped up” periodically at the policyholder’s discretion, with amounts as low as 10 rupees. The clients were not linked to a specific agent and could recharge their policies in many outlets in their vicinity such as small “mom and pop” retailers, microfinance institutions, and government kiosks. In addition, the policy did not lapse, allowing irregular contributions to accommodate the target market’s irregular cash flows.

By mid-2010, the insurer had 90,000 active policies and a gross written premium of approximately USD 1.2 million, numbers that were below the company’s ambitious targets but still impressive nonetheless. However, there were significant challenges in encouraging clients to top up their policies, with only 20% of the policyholders adding to the initial INR 1,000 premium. While the insurer was trying to tackle this challenge, major changes in regulation made it difficult to use retailers as referral agents. The new regulations necessitated a consequent change in Max New York Life’s overall strategy, in which it

⁴ This case study is adapted from the learning journey of Max New York Life published by the ILO’s Impact Insurance Facility.

⁵ In 2012, New York Life sold its stake in the company to Mitsui Sumitomo Insurance and the company was renamed Max Life Insurance.

decided to withdraw from the mass customer market segment altogether. Despite this unfortunate turn of events, the Max Vijay experiment provided valuable insights on a range of issues.

ON CLIENT VALUE

- The product was designed to provide value to clients and be viable for MNYL only if regular savings were sustained. Regular savings increase value for clients from both savings and insurance perspective. Moreover, the entire business model was built on this assumption.
- The upfront premium mechanism was an obstacle to buy the product, especially for poorer households. Max Vijay was built upon a careful rationale for the initial premium payment. The company's actuaries believed that this amount could not be set any lower since 40% of the payment is required to cover administrative costs and risk premium. According to the actuaries, the only way to make this product sustainable was in fact to charge a higher amount upfront.
- One way to make the premium payment affordable was to bundle insurance with credit. MFIs and NGOs that sold Max Vijay often increased loan amounts to accommodate the initial premium payment. However, when insurance is embedded in a loan, clients are less aware of the insurance details. Credit providers also have a major dilemma about how to deal with clients who default on their loans as their insurance policies are still in force and it is difficult to cancel them from the regulatory perspective.
- The policy was more flexible than traditional endowment policies because customers were free to make top-ups as they chose, and regular premium payments were not required to keep the policy in force. MNYL expected the flexible structure to encourage savings. But only 22% of the policies were ever topped up, suggesting that perhaps the product was too flexible and whether additional structure, such as requiring a quarterly top-up, would have been more effective in promoting savings. Although top-ups increased by 51% during a three-month intensive marketing campaign, the number of top-ups dropped significantly after the campaign, demonstrating that customers save more often when given reminders.

ON MARKETING AND BRANDING TO RAISE AWARENESS FOR MASS PRODUCTS

- Building an aspirational brand with well-known celebrities to raise awareness can be effective, especially for mass products. To this end, Max New York Life hired a Bollywood star to serve as a spokesman for Max Vijay. This celebrity endorsement – together with a complex marketing strategy including advertising, mobile vans, and contests – meant that the company incurred significant expenses to promote this scheme. In the pilot site, product awareness reached approximately 65% over three months after the investment in the brand ambassador. According to MNYL managers, building an aspirational brand is the only way to get attention in India today.

- Finding a hook to start communicating with the target audience is key. Fuelled by strong branding, MNYL found that focusing a marketing campaign on the benefits of regularly saving was more effective in engaging low-income populations than introducing an abstract idea like life insurance.
- To build a mass market for this product, MNYL moved away from print heavy campaigns to initiatives with greater focus on outdoor activities, such as community events, contests, and quizzes, coupled with point-of-sale visibility. The Max Vijay team realized that these components were more effective in supporting sales than brochures, billboards, or even TV and radio advertisements. On-the-ground marketing created a buzz and interest in the product that could be more easily converted into sales. MNYL has found that when there was no communication, sales outcomes were reduced by half.

ON DISTRIBUTION AND CUSTOMER CARE

- Besides an innovative product design, Max Vijay involved a new distribution model. MNYL experimented with selling insurance and encouraging saving top-ups using informal retailers including small shops that target customers regularly visited to buy groceries or to top up their mobile phones. MNYL learned that it needed to be selective in identifying the right retailers; a scorecard developed for this purpose builds on best practices in fast-moving consumer goods (FMCG) distribution. For example, the retailers would need to be large enough to have at least four to five employees, so if one employee was involved in a 20 minute enrolment process, it would not undermine the service provided to other customers.
- Training costs were very high to get retailers sufficiently up to speed so that they were able to speak the Max Vijay language and feel like they belonged to the Max Vijay family. The insurer estimated that retailers needed at least two years of support through regular coaching and a peer-to-peer forum.
- Mobile technology and hand-held devices provide insurers with new ways to reach consumers. However, when the process to operate technology is complex, distribution partners and customers prefer a simpler and more familiar solution. MNYL installed handheld terminals that could be used by sales outlets to top up policies. Distributors, however, found the terminals to be cumbersome and felt that the commission (3% of the top-up amount) did not justify the time required to complete a transaction. In response, MNYL offered top-ups with scratch cards. Clients bought the cards from retailers and called a toll-free number to record the top-up amount. Scratch cards provided several benefits: the sales process was faster and easier for distribution partners; cards were familiar to clients, who were already using them to buy mobile talk time; and MNYL could update the contact information for clients when they called.
- With advancements in mobile telecommunications, call centres can play a major role in educating and servicing clients. Call centres can ensure that clients understand the

basic features of the product at the time of purchase, and allow clients to confirm that deposits have been credited to their account. Max Vijay clients had access to a toll-free call centre which enabled the company to stay in touch with the client, update data, and ensure that the client understood the product. As a result, the call centre served to build trust in the insurer.

CASE STUDY 4

COOPERATIVE INSURANCE COMPANY, KENYA⁶

CIC Insurance Group is the third largest insurer in Kenya. It has a strategic focus on microinsurance and has a vision of becoming a household name for the microinsurance market in Kenya and the region. CIC ventured into microinsurance in 2001, piloting microcredit life insurance with a leading MFI. It later expanded distribution through numerous other MFIs and credit unions.

In 2010, CIC developed a new technology platform called M-Bima (mobile insurance in Kiswahili) to strengthen the scale and efficiency of its microinsurance operations. The platform uses a money transfer service such as M-Pesa for the collection of premium. The M-Bima platform can be also used for customer relationship management functions, such as checking account balances, sending reminders, or educating clients through mobile phone applications.

The first product on the M-Bima platform, launched in 2011, was Jijenge Savings Plan. The product provides clients with a convenient and safe way to build savings. It is a 12-year endowment plan with monthly instalments of minimum KES 600 (USD 6.00) for a minimum cover of KES 50,000 (USD 500). There is a six-month waiting period for natural death, and no waiting period for accidental death. An exit benefit is available at the end of the third year with a surrender value of KES 20,000 (USD 200). Clients can save on a daily basis using M-Pesa and receive SMS reminders to stimulate savings.

M-Bima is marketed and distributed through organized networks of small shopkeepers, mobile money outlets, and other large networks such as cooperatives and retail stores. The sales structure and processes are organized similarly to the FMCG retail model. Distributors and agents play an active role in promotions and are incentivized to attract new customers as well as to ensure persistency of savings. The M-Bima distribution network is supported by a CIC sales team headed by a National Sales Manager. Distributors have access to a menu-based information services protocol used by mobile phones to communicate with the CIC system.

The ILO supported CIC to strengthen and monitor its marketing and evaluate its new distribution strategy. Based on its initial experience, additional market research and business analysis, CIC developed a new marketing strategy for its Jijenge Savings Plan. Product design remained the same, while promotion, distribution, and customer care

⁶ This case study is adapted from the learning journey of CIC published by the ILO's Impact Insurance Facility.

strategies were revised significantly to improve scale and persistency and to position the product differently, targeting it at good savers.

The strategy was pilot tested from March to June 2013 in two zones in Nairobi with 99 new outlets, mostly small shopkeepers involved in mobile money transactions, but results of the pilot were unsatisfactory. To make the offering work for CIC and clients, the following targets were identified: persistency at 75% or above, misunderstanding below 15%, and agent productivity of at least 0.6 new policies per day. The results from the pilot were however not encouraging. Persistency levels were poor at 30% to 40%, misunderstanding about the product was evident among 60 to 70% of customers and agent productivity (at 0.13 policies sold per day) was insufficient to deliver any real value to agents. The piloted model was not scalable and the product and processes went back to the drawing board.

The pilot proved that the current distribution model (mostly mobile money outlets) is difficult to execute at the current stage of market development in Kenya. Agents do not have enough awareness of insurance and seem to have other better business opportunities. Despite poor pilot results, opportunities remain huge. Based on the following lessons, CIC will try different options to pursue its strategy to tap into the low-income market through a savings-linked offering.

ON PRODUCT DESIGN

- The high demand that was evident from the market research did not translate into sustained, systematic saving behaviours. Persistency remained low despite a number of different strategies tried during the pilot. Low persistency was mostly driven by poor client understanding, which was partly caused by an inappropriate distribution strategy and gaps in its execution, but more importantly by the complexity of the product. Clients felt cheated because they did not understand lapses and surrender conditions, which fuelled mistrust.
- Despite investments in training, agents did not understand the policy much better than clients, which proved just how difficult it is to explain an endowment product. Significant investments in more effective agent training would be required, perhaps coupled with simpler product features.
- A functional savings product for low-income people needs to deliver a mix of immediate rewards with no lapses and less severe penalties, underpinned by simplicity and transparency. The promotion of savings requires a transparent mix of 'sticks' and 'carrots'. Given irregular cash-flows, low income savers need some flexibility. Policyholders also need to see more immediate benefits because they appreciate the present value of cash more than value of their savings in the future. Therefore, small penalties combined with frequent, more immediate rewards might yield better results.

ON MARKETING AND DISTRIBUTION

- A retail model without a strong brand and local presence cannot build enough trust to sustain saving behaviours. M-Bima Jijenge clients made it clear in focus groups that they tried the new product, but abandoned savings as there was no local presence. Even if some appreciated an option to call the customer service centre, they still would prefer to get more ‘physical’ confirmation from a CIC branch, branded outlet, and regular contact with a CIC agent.
- The risk of clients not understanding the product is very high if the retail model is not properly managed. A complex product, bundled with an aggressive commission structure, encouraged agents to catch any client who had shown the slightest interest. This led to 70% of the policies being mis-sold during the pilot – meaning that policyholders did not have full information or a good understanding of the product, which contributed directly to low persistency.
- Targeting is difficult to implement within a mass-market strategy, but can have a positive impact on quality. One of the strategies to improve quality was to target groups of good savers. The core target groups for the pilot were: self-employed and casual workers (and transfer receivers) aged either 26 to 35 years or those aged over 46 years with small families and children and earning a monthly income of between KES 5,000 and KES 20,000. This product positioning was informed by data mining of the management information system, focus groups, a phone survey, and findings from secondary sources.
- Above the line (mass media) promotion is required, and cannot be substituted by activation campaigns. Activation campaigns attracted a reasonable number of clients, but resulted in limited ongoing sales. To this effect, CIC ran one-day activation campaigns in pilot sites and refresher campaigns in the same zones four weeks later. These were carried out by outsourced marketers operating in tents, supported by a van with a disk jockey. The initial assumption that the campaigns would replace above-the-line marketing (as the pilot was limited to certain zones) was not correct as they did not create enough visibility to support continuous sales and persistency.
- A text message, or a short message service (SMS), is a cost-effective way to remind clients that they are in arrears on contributions. Although only 10% of those who received a weekly SMS reminder paid their arrears within the next two days, the strategy was cost-effective as it cost less than 0.5% of the weekly premium. While an SMS was marginally useful as a reminder, this was not an effective medium to educate clients about product features and the value of long-term savings. CIC research also showed that too many text messages could create confusion.
- Call centre out-bound calls do not add much value if other more basic issues are not solved first. The results of welcome calls came as a surprise. They were well executed,

using a good script, and were appreciated by the few clients who participated in focus group discussions and had received the calls. But calls to clients were ineffective in the face of the more fundamental problems with the value proposition.

- The pilot proved that the distribution model through mobile money agents is difficult to execute. These outlets were not sophisticated enough to sell insurance products and seemed to have better business opportunities than insurance sales. Given the transactional nature of mobile money business, the retailers appreciated present revenues much more than future ones. Hence it was difficult to build the quality of their Jijenge portfolios over time. This discouraged sales agents from investing time in an ongoing service after the initial sale.

ON TECHNOLOGY

- A wireless application protocol (WAP) app is a must to improve the quality of customer data capture and to build persistency. Good quality customer data is key for a product with frequent transactions like Jijenge. The WAP app should collect the same customer data as other enrolment channels. Agents should be able to use the Internet or WAP apps to check account balances in real time.
- Developing a phone application is a must to build trust and sustain savings. Clients showed a strong preference to have an M-Bima menu on their mobile phones to be able to check their balance in real time.

CASE STUDY 5 T UW SKOK, POLAND⁷

Among the five case studies, T UW SKOK is quite different as it is based in a middle income country, and because it does not provide an endowment product per se, but rather a savings-linked insurance product that may help to overcome some of the challenges one finds with endowments.

As the primary insurance provider of the Polish credit unions (CUs), T UW SKOK's history is linked to the re-emergence of the credit union movement after the fall of communism. Not long after the new credit unions began collecting savings, the National Association of Cooperative Savings and Credit Unions (NACSCU) planned for the provision of insurance as well. Soon thereafter, T UW SKOK was born, with initial services focused on deposit insurance and loan protection for the credit unions. In 2000, the insurer received additional licences allowing it to reach out to CU members themselves. In subsequent years, T UW SKOK unveiled numerous personal insurance products for credit union members, including a variety of accidental death and disability policies, homeowners or tenant's coverage, protection against debit card fraud and robbery, and savings completion insurance.

⁷ This case study is adapted from Churchill and Pepler, 2004.

The savings completion insurance is designed to encourage members to develop a regular savings programme through a contractual savings account. The member determines the savings goal and time period, up to a maximum of ten years. The credit union has software that will then calculate the amount of the monthly deposit to achieve the savings target, taking into consideration the interest rate and the monthly premium for insurance coverage. In the event of the accidental death of the member, TUW SKOK will pay the beneficiary the difference between the savings target and the savings balance at the time of death. There is also a disability component that supplements the member's salary if the member is unable to work for more than 30 days.

ON DISTRIBUTION AND INCENTIVES

- This insurance product is particularly attractive to the credit unions because it is closely integrated into their core business. Savings completion coverage helps the CU to achieve its own goals by making the contractual savings product more attractive. It is also easier for CU staff to sell because while setting up the account they ask if the member wants the additional insurance coverage. An early lesson from TUW SKOK's experience with products for CU members is that it is easier for staff to sell insurance that is linked to their core services (savings and credit) than stand-alone insurance products.
- TUW SKOK believes that it will have greater sales success if the credit unions earn greater fees, at the expense of commission to individual agents. The logic behind this approach is to get greater management buy-in, which means the managers will more actively encourage staff to sell insurance. The credit union can then decide how much to pass on to the individual agent.
- Besides commissions, TUW SKOK has introduced additional incentives for achieving volume thresholds. When a credit union sells 1000 policies, the insurer pays it a lump sum bonus. To stimulate competition among its agents, TUW SKOK rewards the top 20 salespersons with a long weekend trip to Rome or Paris for two.

ON PRODUCT DESIGN

- Because TUW SKOK does not offer an endowment product, it is difficult to know how the endowment would be perceived in the market compared to the savings completion insurance. Typically insurers prefer to offer endowment products because then they manage the investments, but because TUW SKOK is owned by the credit union federation, its *raison d'être* is to serve the CUs and their members, and in this situation, savings completion makes more sense.
- Although the contractual savings accounts can be structured for as long as 10 years, most accounts are in the three to five year range, reflecting the target market's preference for more short to medium term savings goals.

- Product design is kept simple for ease of administration, training of agents, and member understanding. Insured amounts and benefits are suited to the demographics of the credit union membership.
- Although most products are priced on a per annum basis, every attempt is made to provide a monthly premium alternative to facilitate affordability.
- The partnership between TUV SKOK and the credit unions greatly facilitates premium collection. All credit union members have savings accounts, so each month the CU deducts the relevant premium amounts from the members' accounts and forwards it to TUV SKOK. Since this is an electronic transaction rather than a physical financial transaction, the transaction costs are dramatically reduced.
- For disability claims, the benefit varies depending on the degree of disability. This assessment tends to be subjective, and the findings between doctors can vary significantly, causing delays in claims processing. In fact, the number one cause of claims complaints stems from disagreements regarding the extent of the disability. TUV SKOK is exploring ways of further simplifying its disability products.

LESSONS LEARNED

Although none of these examples provides an unqualified success story, they all offer keen insights into the design and delivery of savings and insurance that could inform efforts to extend contributory pension plans to low-income workers. This section synthesizes the main lessons, particularly with regard to product design, distribution and technology.

PRODUCT DESIGN

One of the main drawbacks of endowment products is that they are quite complex and often opaque. Therefore, the first lesson that emerges from these examples is about the importance of designing products that are simple and transparent. Unfortunately, that is often easier said than done. As soon as a financial institution starts to engineer a product to increase sales and enhance persistency, it starts to add whistles and bells that increase complexity. The product engineering process involves the consideration of numerous trade-offs between simplicity (less choice) and flexibility (more choice). As Rusconi (2012) notes, "Simplicity is helpful to gain customer trust and improve understanding of the most important product features, while flexibility allows customers to respond to unexpectedly changing circumstances."

Long vs short term

Micro-pensions are very long term savings products. However, from the case studies, it seems that shorter term products resonate better with the low-income market, which has

difficulty planning too far into the future. One possible solution that could be considered for pensions would be a short or medium term contract, perhaps three to five years. When the term comes to an end, part of the savings becomes available for immediate use, while the remaining corpus is rolled over into the retirement account, and then the process begins again.

Access vs illiquidity

A long-term savings product should have restricted access so that an account holder is able to start withdrawing funds only once they have reached the retirement date. Such an arrangement may not be very attractive to low-income households with more pressing immediate needs. Besides the idea of liquidating part of the contractual savings at the end of the contract period, it also may be possible to borrow against the retirement account if the account holder has an urgent need for funds. The case study experiences, however, caution that this should be structured to ensure that the right skills are involved.

Incentives vs penalties

With a savings product, one thinks of interest rate as the primary incentive to increase account balances, and exit charges on early withdrawals as the main penalty for account closures. From the experiences with endowment products, where the savings and insurance components are quite inter-related, there is considerable confusion among policyholders about incentives and penalties. Perhaps the TUW SKOK approach, where the two pieces are clearly separated, is a more transparent and understandable approach. Another dimension to consider is whether the insurance itself could actually be positioned as an incentive, as illustrated in Box 19.1.

Box 19.1

Rationale for Co-Contribution Top Ups

Microensure is a U.K.-based brokerage that provides insurance to un-served market segments in developing countries. In 2011, MicroEnsure launched a savings-linked product with a bank in Ghana that had been experiencing low account balances and limited transactions. Although the bank had over 100,000 depositors, more than 85% of them held a balance of under USD 60. Each of these customers imposed an administrative cost of around USD 0.24 per month on the bank. The bank wanted to provide an incentive to customers to increase their savings balances. Interest rates had proven to be ineffective, as a few cedis each month were not enough to encourage people to save.

MicroEnsure and its partner StarLife Assurance launched an insurance product that was tied to the savings accounts. Depositors who held a minimum balance of USD 60 each month were entitled to free life insurance with benefits of up to USD 180. Clients with a balance of USD 120 were entitled to life insurance for their spouse and children as well.

The bank paid the premium to StarLife Assurance instead of a portion of the interest that clients would have received, although no interest was deducted for clients with higher deposits. StarLife marketed the product via SMS, in-store marketing, posters, and telemarketing at a cost of less than USD 0.50 per client.

The results were surprising. In the first five months after product launch, the bank's deposits increased by 19 percent.

Deposits from clients with balances below USD 60 increased by 207% over five months as clients saved more to access the free insurance benefit. This increase, along with anecdotal evidence from interviews with depositors, suggests that many customers changed their savings behaviour as a result of the additional insurance cover.

Source: Gross, 2012.

Discipline vs flexibility

Results from behavioural economics indicate that people may prefer products that offer structured savings to products with more flexibility. Studies have also shown that reminders that create a mental link between contributions and a personal savings goal can promote savings (Dalal and Murdoch, 2010).

While bundling insurance with saving may seem attractive, these case studies show that the big challenge is to sustain savings. CIC and Max New York Life managed to reach persistency levels of only 20% – 40%, not enough to create any real value for customers. A savings product for low-income people needs to strike a balance between discipline and flexibility. The Max Vijay product was perhaps too flexible – and as a result, very few policyholders actually saved. The disciplined approach adopted by Allianz, with weekly payments, but with two payment holidays per year, seems on paper to strike the right balance, although the actual results do not back this up, perhaps for other reasons than the design of the product. The main message is to align premium payments to cash flows. Therefore, for people with highly seasonal income, such as agricultural or tourism industry workers, premiums should be collected during the narrow windows when these cohorts may have surplus funds.

DISTRIBUTION

Distribution is perhaps the most critical issue that needs to be addressed, and some interesting insights emerged from the case studies, as a range of different approaches were attempted. The same are summarized in Table 19.1

Table 19.1

Advantages and disadvantages of distribution models

Channel	Example	Advantages	Disadvantages
Own agents	Delta	Specialized in insurance sales	Expensive business model
Local retailers	CIC and MNYL	Enhances access	Hard to prioritize insurance sales and service; requires significant investments in training
Financial institutions	Allianz, TUV SKOK, Delta, MNYL	Leverages existing credit and/or savings relationships	Most effective when insurance reinforces the core business

The experience with using small local retailers and mobile air-time distributors to sell insurance was unsuccessful. Delta's approach of using an army of agents certainly seemed successful in terms of their ability to reach significant scale, although at the expense of client value. However, Delta's experience does suggest the importance of specialized sales expertise and a face-to-face sales experience.

Financial institutions seem to be the channel with the best potential, but one that was still problematic. Delta initially tried to partner with an MFI, but they could not align their strategies, which was similar to Allianz's challenges in Indonesia. Yet Allianz in India was very successful distributing through MFIs, and TUV SKOK also had success with the credit unions.

One of the common challenges in distributing through banks, credit unions, and other financial institutions is that insurance is not always well aligned with the financial institution's core business. Therefore, for example, as soon the bank experiences a delinquency problem, insurance sales plummet as loan officers focus on collecting loans, as explained in Box 19.2. This was not a problem with TUV SKOK because insurance reinforced and supported the credit unions' core business, and insurance enrolment was integrated into the process of opening the savings account.

Box 19.2**Who sells voluntary insurance in a financial institution?**

An important decision to be made when introducing voluntary insurance in a financial institution is who will be selling the products. It might seem logical that if field staff or loan officers were already known in the community and interacting with the target

market, then it would be cost-effective for them to also sell insurance. However, this approach has not been particularly successful, in part because selling insurance and selling loans requires different approaches, training and skillsets.

More importantly perhaps, unless insurance sales are prioritized and incentivized by senior management and branch managers, loan officers are unlikely to give sufficient attention to insurance. This is particularly true when their core business starts experiencing problems. For example, if their portfolio at risk starts rising, they will stop selling insurance and focus on collecting loan repayments.

Such practices have been noticed repeatedly by insurance companies around the world, and have discouraged them from distributing voluntary products through MFIs. For example, in Haiti, the insurance company AIC had a limited uptake of a voluntary funeral insurance product when it was sold by the employees of a local bank. But when the insurer put its own staff in the bank branches, in one month it had reached 80% of the sales that the banks' staff were able to reach in a year and a half (Guarnaschelli et al., 2012).

An alternative to integrating insurance sales into the responsibilities of loan officers and tellers is for the financial institutions to hire specialized insurance agents. For example, UNACOOPEC, a network of savings and credit cooperatives (SACCOs) in Côte d'Ivoire serving 800,000 members, recruited 150 specialized insurance agents to distribute its funeral product, and they had sold around 66,000 policies by the end of 2011. UNACOOPEC conducted a break-even analysis to estimate the annual premium amounts for branches that would be needed to sustain the cost of the specialized agents. It estimated the product would break even at premium levels of USD 13,000 for SACCOs with no insurance agents (smallest branches), USD 37,600 for SACCOs with one agent and USD 79,000 for SACCOs with two insurance agents.

Financial institutions may find this specialization more palatable if there is a sufficient volume of premiums, but it may be harder to rationalize at the outset, creating a chicken and egg scenario: how can the bank or MFI achieve sufficient scale without specialized insurance agents? How can it justify hiring specialized agents without the premium income to cover their salaries? An interim arrangement might be for an MFI to invite the insurance company's representatives to sell insurance to its clients, and then transition the portfolio to its own specialized staff once there is a sufficient premium flow.

Source: Churchill, Dalal, and Ling, 2012.

Based on these experiences, if micro-pensions are distributed through financial institutions, then it might be useful to have specialized salespersons rather than trying to integrate the responsibilities into jobs of existing staff. It is important to note that financial institutions that mobilize deposits could see a micro-pension product as competition for the finite resources of low-income depositors unless the financial institution was able to retain (and

on-lend) the pension balances. This is why a number of the other chapters in this volume emphasise the use of other delivery mechanisms than a traditional vertically integrated financial company delivering all aspects from customer acquisition through collection, account administration, investment, and pay-out.

Distribution can be broken down into four aspects for endowment products: financial education, sales, premium collection, and servicing, with the latter involving several sub-activities such as claims processing, reinstating lapsed policies and borrowing against the cash value. Typically, one might expect the distribution channel to be involved in all of these roles, but in practice, it may make sense to separate the functions. The emergence of e-money in many countries makes it a more effective tool for premium collection, as CIC has done, than to have agents collecting premiums door-to-door, as was the case with Delta Life. In the case of MNYL, it was found that MFIs were more effective in selling policies than the local retailers by bundling an upfront premium into a loan, but retailers were used more for top ups.

A distribution channel that was not in any of the case studies but is still worth mentioning is the banking correspondent network, which is like a cross between a local retailer and a financial institution. Located in geographies that are more convenient for low-income households than typical bank branches, a banking correspondent would have a specific window to manage financial transactions and a technology platform that links into the financial sector. Such a channel might be useful for depositing micro-pension contributions in environments where e-money is not available, but would probably have the same challenges as the retailers with initial enrolments.

In many of the examples, the on-the-ground distribution was supplemented by a call centre, which could fulfil a number of roles, including verifying that the policyholder received correct information from the agent and answer any additional questions that the client might have. The availability of a call centre to verify account balances and answer questions is also an important factor in building the public's trust in the programme. Chapter 16 highlights the use of call centres, and the importance of thinking about them, and establishing the capability, early in the process. This is something that could easily be forgotten by policy officials focused on the overall design and legislative agenda.

COMMISSIONS

The effectiveness of the distribution channel depends on many factors, including how well trained they are, whether the additional service (e.g. insurance or pension sales) is integrated into their core business processes, if success is integrated into performance reviews, whether there is buy-in from middle and upper management, and so on. But the one factor that tends to get the most attention is commissions – what is in it for the agent?

There were many reasons why VisionFund was not an effective distribution channel, but an important one is that loan officers were not sufficiently incentivized. This is clearly

in contrast with the Allianz experiences in India where the insurer was able to provide meaningful incentives, and consequently the MFI distribution channel had millions of policyholders.

One of the reasons why endowment products are so opaque is that policyholders are not aware that most of their early premium payments are going to pay the agent's commission. Micro-pensions will not have the luxury of obfuscating commission payments. As micro-pension systems need to be more transparent, they will need to find a way of compensating sales staff that is acceptable to the public. Importantly, micro-pension products will need to involve not just an upfront sales commission, but trail commissions on persistency over time – an aspect that is missing from most endowment products.

MIS-SELLING AND FRAUD

Unless the pension product has a lot of whistles and bells and incentives and penalties, it is likely to be much easier to sell than an endowment product, and therefore less vulnerable to mis-selling. However, it is still a risk, particularly for schemes with massive scale, and needs to be managed, for example, through call centre follow-ups to a sample of new account holders and through mystery shopping as well.

Fraud remains a huge risk for all financial services, and where every possible effort should be made to avoid cash payments to agents or sales staff. This is possible in environments with e-money and banking correspondents. But it must also be coupled with public education campaigns to tell current and prospective account holders not to make cash payments to agents, otherwise fake or former agents will go around collecting pension deposits from people and pocketing the proceeds. This would ultimately undermine the credibility of a contributory pension programme.

TRUST

Unlike lending, where the financial intuition has to trust that the borrower will repay, with savings and insurance, a policyholder or depositor needs to trust that the bank or insurer will fulfil its promises. With short term savings or a current account, it is quite easy for a depositor to make sure that his or her money is still available, but for long-term products like pensions, it is much harder to do so. Consequently, micro-pension schemes will need to find other strategies to secure the public's trust, including strong regulatory oversight and government guarantees, plus effective branding. In this context, the above case studies highlight the importance of a solid and reliable local presence to secure trust, along with a facility for checking account balances in real time.

TARGETING

Successful distribution involves a segmented approach, targeting subsets of the population with products that are relevant for them. It is useful to consider not having a one-size-fits-all approach, but rather different solutions for segments. For example, a voluntary pension scheme will probably not be relevant for the poorest households who have very little or no saving potential.

FINANCIAL EDUCATION

Financial education is widely seen as an important component to ensure that consumers understand and use long-term financial services correctly, but there is little consensus as to the most effective means for providing the education, who should be responsible for it, and who should pay for it as well. There is general agreement, however, that financial education is an on-going process and not just a one-off activity.

Box 19.3

Ad-hoc financial education efforts are a waste of money

A long-term, comprehensive approach is important to develop and deliver effective consumer education to improve risk-management capacities of low-income households. Careful identification of topics crucial to develop insurance and product awareness is required, along with ongoing use of consistent, integrated messages delivered by multiple channels. The experience of SAIA provides a useful reminder of why one-time activities are not an effective way to build insurance culture. As part of a broader consumer education initiative, SAIA supported a project that provided financial literacy through a series of well-designed one-day workshops in rural areas. After one year SAIA found that only 57% of the participants interviewed ever remembered participating in the workshop. According to the staff, one of the main reasons for the poor recall rate was that the education was delivered in a stand-alone workshop rather than a continuous learning process facilitated by refresher messages in various forms and integrated with access to microinsurance products. On a similar note, in partnership with Bajaj Allianz, CARE India found that certain topics, such as risk pooling and claims procedures, need continuous emphasis and repetition.

Source: ILO Impact Insurance Emerging Insight #1

Some experts advocate a separation of duties between an educator and the sales agent on the premise that if the agent is also supposed to educate, there is a risk that the agent will cut corners and not ensure that clients are fully informed. From the experience with insurance, however, one finds that financial education raises awareness and perhaps even understanding about insurance, but generally has no impact on uptake unless education is coupled with sales. Therefore, instead of artificially separating sales and education, and adding additional costs, the recommendation would be to integrate them and manage the risk of education shortcuts.

After the initial education, advice and sale, an important part of on-going education is to remind account holders to make their next payment. From case studies, the primary means of reminding clients about their past or pending payment was through SMS, but this needs to be managed carefully to avoid an information overload, as illustrated in Box 19.4.

Box 19.4**Carefully planned SMS reminders can get clients to act**

Research from microfinance in Bolivia, Peru, and the Philippines has shown SMS reminders increase savings balances. Messages that mentioned a specific saving goal (for example, saving for school fees) were particularly effective (Karlan et al, 2014).

Microinsurers are similarly using SMS reminders for premium collection. Alternative Insurance Company (AIC) in Haiti started using SMS campaigns in 2010 to remind clients to pay monthly premiums for funeral insurance. The campaigns were planned around the mid-month pay cycle. Premium payments spiked on the day of the messages, and up to three to four days following a SMS campaign. When necessary, AIC conducted a second campaign to coincide with the next pay cycle at the end of the month. Messages were, however, never sent more than twice per month.

An SMS can be an effective communication channel for insurers, provided the content, timing, and frequency of the messages are planned properly. Insurers need to avoid information overload and sending messages that clients ignore. For example, Weather Risk Management Services Ltd (WRMS) in India learnt that farmers preferred ad-hoc weather alerts to daily weather forecasts. Farmers responded to the weather alerts by adapting their irrigation techniques. WRMS realized that it needed to be selective and send only the most important messages to prompt action from clients.

Source: Lee and Solana (2013)

TECHNOLOGY

One of the main reasons why it is now possible to have a conversation about endowment products for low-income policyholders or even micro-pensions is that technological advancements are creating new opportunities and business models. The most important advancement is the emergence of payment platforms that are the backbone of branchless banking. This development dramatically lowers the transaction costs of premium collection, while concurrently reducing potential fraud or errors with manual systems, as experienced in Burkina Faso (see Box 19.5).

Box 19.5**Use of technology in Burkina Faso**

Replacing the manual, paper-based recording of premium collections with a mobile phone-enabled solution allowed UAB Vie, a life insurance company, to simplify administrative processes and enhance data quality for its savings-linked life and disability insurance product. The product consists of a contractual savings scheme that features daily collection of premiums by UAB Vie staff.

Previously, the staff collected and recorded premiums manually, at the client's business location, and later deposited them at UAB Vie's central office. These premiums were

first recorded in a ledger and then recorded in the information system, typically one to two months later.

The implementation of mobile phone technology has resulted in an improved process and better data quality. Field staff still face connectivity issues in the field from time to time, but the mobile phone solution allows them to record premiums in real-time, and without paper, through an application on their phone. The central office knows the premium amount to expect when the field staff come to deposit the daily collection. A new auditor's post has been created to validate the premiums recorded online with those actually brought in by the field staff.

Real-time monitoring enables UAB Vie to keep policy status and savings balance current, and helps to identify errors immediately, instead of allowing errors to accumulate as under the previous system. Further, up to date information on premiums paid per client makes it possible to more accurately calculate the financial reserves needed for the scheme.

UAB Learning Journey

The ultimate objective, to minimize transaction costs for the clients as well, is to take cash out of the process all together, and electronically deduct payments from an income source or another account. Besides making it easier for the clients, such a solution also increases persistency. A problem can arise if the account being deducted from does not have sufficient funds, in which case the system should send a reminder to the client and try to deduct again the next day.

In addition to reducing transaction costs, technology has also made great progress in facilitating the identification of policyholders and/or beneficiaries. When processing a claim, say for life or health insurance, one first needs to verify that the policyholder (or beneficiary) really is who they say they are, and the technological developments with identification cards and biometrics greatly facilitates this step in the claims process.

One of the key lessons about technology is that it is not going to make a bad product better or solve already flawed processes. Often, managers want to throw technology solutions at problems without diagnosing what the problem is to begin with. And, importantly, companies that are making big investments in technology need independent advice. It is also important to test user acceptance of the technology. It was interesting, for example, that at MNYL, retailers preferred using scratch cards instead of the hand-held devices, especially since the latter required a bigger upfront investment by the company.

CONCLUSION

The world of financial inclusion largely began with microcredit, which was eventually followed by savings and then insurance. The evolution to micro-pensions is a natural next step, but it will not be an easy one, as illustrated by the experiences with endowment products for low-income

households. Manifold challenges in designing and delivering relevant voluntary micro-pension products need to be overcome to provide a viable and valuable service to the working poor. Fortunately, technological innovations with payment platforms and identification systems are creating new opportunities to tackle these challenges. But before advancing into the future, it is imperative that we scrutinize the past, both the successes and challenges of other financial products, like endowment products, to learn from the experiences of the pioneers.

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