



Overcoming operational challenges in order to switch from microinsurance to popular insurance

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Speech of Marc NABETH, Head of the Microinsurance Department at CGSI Consulting and Associate Researcher at the Thomas More Institute (1).

The Microinsurance Network (2) defines the term "microinsurance" as insurance services mainly adapted to clients with low income and no access to mainstream insurance services. However, regarding the worldwide insurance repartition, we can easily understand that the lack of formal insurance goes beyond the theoretical low income definition.

The premium income in the industrialized countries (15% of the world's population) generates 87% of the world's total volume, despite a financial crisis (3). In the majority of developing countries, less than 10% of the population is protected by insurance coverage and/or efficient social welfare (4).

As vulnerability is a cause and a consequence of poverty (5), and because the concept of low-income crosses a variety of situations, microinsurance tends to include schemes that target those that are not poor but still vulnerable to poverty (6). In a remarkable thesis, Martin Heintz, founder of the Allianz microinsurance program in Indonesia, prefers the term "low-asset" to the more common terms "poor" or "low-income" : "Firstly, this avoids the patronizing connotations implied when talking about 'the poor. Secondly, it semantically underlines that welfare does not only depend on one's income, but on one's broadly defined asset-base" (7).

Microinsurance is currently at a crossroads. Its popularity has grown and the involvement of international and local insurers reflects the evolution of an industry that is more than friendly or utopian. This is indeed the construction of popular insurance, an approach combining the technical and the socio-cultural which is at stake here. It goes beyond good feelings.

In the ILO's Microinsurance Innovation Facility Newsletter, Peter Wrede, from Aga Khan Agency for Microfinance (AKAM), asks if we are not witnessing the end of microinsurance: " «Insurance the poor can afford» was a slogan we used in the early days of our microinsurance expansion to promote our services. Until one day a lady in rural Pakistan said, "that is not for me; I'm a teacher, I'm not poor". That day we learned to be careful with the word "poor". We do continue to use the word "microinsurance", but I'm increasingly uncomfortable with that as well. The word has been instrumental in several areas. It attracts donor money much better than the word "insurance." The big promise of microinsurance is that it will give every human being access to professional risk transfer, just like the accessibility of mobile phones. [...] With this vision in mind, I prefer to offer insurance to our clients instead of microinsurance. If we can replicate the success story of mobile telephony, in 10 years no one will talk of microinsurance any more, rather insurance for everyone" (8).

Of course, comparing the use of insurance with that of the mobile phone has its limitations (9) and factors hindering the development of a market for microinsurance (and the underinsurance for the

country) are well known : from the insurers, a lack of interest to develop new business models, short term financial pressure, the comfort of habits and certitudes, carrying along prejudices that are much more unchanging than cultures. This is what Jean-Michel Severino and Jean-Michel Debrat, from l'Agence Française de Développement, denounced in an exciting work that challenged accepted beliefs : "More broadly, culturalist analyses offer a profoundly reductionist vision of the notion of «culture», by considering it simultaneously homogenous and unchanging. But culture is not «one», it does not form a coherent whole. Who is the legitimate representative of the dominant culture : the politician, the doctor, the farmer or the worker? Is Muslim culture today the culture of Istanbul or Kabul? What's more, culture is not unchanging: it is, on the contrary, a living product. We don't die in the culture into which we are born: the African man today does not have much in common with his father or his grandfather. This is a phenomenon that is speeding up when one considers that more than 60% of the population of Sub-Saharan Africa is less than 25 years old. And cultures are not disconnected from large-scale worldwide evolutions: today they are affected by globalisation. Finally, to say that these cultures, stable and homogenous, orient the actions of those that belong to them is to run the risk of overshadowing other types of explanations, possibly more important, of a demographic, economic or social order, that are essential to the understanding of development processes" (10).

From the population, the lack of interest is due to a lack of education, risk management (heavily influenced by the system of family and community reciprocity), mistrust between mechanisms outside the community, ignorance or lack of understanding of insurance mechanisms (benefits and purposes of insurance, mistrust towards intangible benefits: paying a premium for a potential benefit), unaffordability and ill-suited products offered , policy jargon at sales and at claims stages, and finally bad experiences (bankruptcy of insurance company, runaway agents or dissatisfaction with claims settlements) leading to mistrust towards insurers.

This article, taken from a speech delivered at C5's Global MicroInsurance Summit held in Paris in June, deals with a few operational challenges, identified during different missions, that insurers have to overcome in order to develop microinsurance programs (11).

Overcoming ignorance and mistrust

One of the first obstacles to overcome is the lack of knowledge regarding formal insurance by most of the population in developing countries. In a broadcasting "Microtrottoir : Bancassurance pour tous", directed by M. Vance Abissa and Savané Issiaka from UNACOOPEC-CI (Ivory Coast), a young man answers : "Insurance, Insurance, I heard about it. In fact, I don't really know what insurance means. Everybody is talking about insurance, that is something for the rich, for the people who have money, the ones who always speak about insurance. But me, I don't know what is insurance". A brief summary of the situation comes from the other person interviewed, a well educated woman: "It is very important to have insurance. It is a pity that people don't know about insurance in this country. If you ask ten (person) people, maybe two out of ten will answer you that they are insured because they have money or a car. It is important to have an insurance, but we don't know about it. In some companies, they have a health insurance or other types. But we don't know nothing about it".

Aside from lack of knowledge,, another obstacle is mistrust on the part of the population. In the center of Nairobi (Kenya), we noticed this dialogue during a Focus Group (9 people interviewed) managed by a Kenyan external consultant who has in-depth knowledge of the low-income market.

- Consultant: "How do you buy the product?"
- Focus Group Member: "Through an agent."
- Consultant: "How did you hear about the product?"
- Focus Group Member: "They come around and they harass you".
- Consultant: "How do they do that?"

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- Focus Group Member: "They look like devils. At the beginning it's like heaven, but they don't give you the negative, only the positive. They only give the good side and not the bad side of every product".
 - Consultant: "Which insurance company could do better"?
 - Focus Group Member: "We need a product with a simple language, simple conditions and to put it in plain language".

Consequently, we can understand that in order to overcome these obstacles, the first innovations for an insurer willing to deploy micro-insurance is to be trustworthy and popular within the target population; to work as seriously as they do for VIPs or VICOmpanies and finally to really care about the population.

Almost universal requirements : Top Management Involvement, refine products and procedures with agents and prospects

Top management involvement is important, not only in terms of external communication. All our clients have created microinsurance departments or dedicated very skilled employees, as in Haiti with AIC, in Ivory Coast with UNACOOPEC who has a partnership with ALLIANZ, or in Vietnam with Groupama VN. The CEO of Groupama Vietnam, M. Van Khoa Bui, made several field visits to see the project headways and declared during one of our Focus Groups: "« And now I'll talk personally, as a French person originally from Vietnam, I had the desire to come back to Vietnam and participate in its development and particularly to help low income families. Now I have the opportunity to do so. I'll try as hard as I can, to help you and allow you to have a more stable life, thank you".

Before launching a microinsurance program, products and procedures, even the first marketing keywords have to be polished with partners and populations during Focus groups. Questions asked by potential agents or potential insured (during a focus groups) are often relevant, leading the insurer to be an educator and to develop procedures tailored to the constraints and concerns of potential policyholders.

During a meeting with MFI agents in Baalbeck (Lebanon), one of them asked the microinsurance team of the local insurer named Commercial Insurance: "Our client takes a loan to buy a mini-bus (informal taxi), but without legal papers, can Commercial Insurance insure this, as car insurance?". Behind this simple question, lies a classic problem in developing countries: how to adapt insurance regulation to protect the informal working tool of an insured? How to protect the insurer against potential frauds due to false papers? At various meetings organized jointly by the Red Cross and Groupama, in Can Tho (Viet-Nam), several people targeted by the microinsurance program (health insurance and education insurance covering children in case of death parents or tutors) were asked to define disability and explain how they get paid in case of disability. In Yamoussoukro (Ivory Coast), a stallholder questioned UNACOOPEC staff in charge of the microinsurance development: "We know insurance. We know how it works. You have your papers, your money, but you're in the hospital. How do you send the papers?" Regarding the lack of postal address or the inefficiency of the post office in a lot of countries, the question goes beyond the Ivory Coast and implies original procedures to facilitate the claims notification. Finally, to end with questions from the field, a quote from the MFI client during a focus group in Mirebalais (Haiti) about the first microinsurance product launched in the Caribbean area by the Haitian insurer AIC and his MFI partner Fonkoze : "If I'm no longer a member of Fonkoze, can I renew my insurance (policy)?"

Another essential element to take into consideration concerns social and cultural characteristics. For instance, in the Ivory Coast, where respect due to the elderly is so important, it would have been impossible to start any microinsurance program without including elder members of the UNACOOPEC. Through positive discussions between UNACOOPEC and the insurer Allianz CI (Ivory Coast), the classic eligibility age limit of underwriting, 55 years old "in the insurance world", had to be raised to 70 at subscription and 75 at the end of the guarantee, for the "microinsurance world". After 9 months of activities, we can assert that age limit increase did not affect the quality of the portfolio and no adverse selection? has been documented.

Local context can also influence the execution of the project. In Vietnam, the “Com Pop” which is the “Popular Comitee” linked to the Communist Party, had to be present during every focus Group. So the challenge was how would people talk with the possible bias induced by political fear? And we didn’t even know who in the group was the Com pop representative. In one Focus group we discovered at the end who he was because he advised us to run an advertising campaign in the newspaper for the youth of the communist party as this is the most widely read newspaper: “You can run an advertising campaign in the newspaper for the youth because it is the most read. You can run a TV campaign, in the Can Tho local newspaper. You have to develop the Groupama brand. You have to advertize one product at a time, not two. It would only make things more complicated. You have to make sales brochures to distribute in the district. I’m not here to teach you how to do your job but to give you ideas.”

Overcoming challenges : taking into account culture and political context but also setting up a thorough follow-up

Even if we’re very careful to develop a product that fits the local context and culture (and I mean not only the product but also procedures, agent training, etc.), a strict follow up of the project is required to make all necessary time adjustments. During a meeting in February 2010 in the Centre region, the microinsurance agents (a dedicated sales force) had to explain to the DFP (Direction de Fonds de Prévoyance, that is the Microinsurance direction), their results and their strategy to reach qualitative and quantitative objectives.

The DFP concluded each intervention with some advice. For instance, the microinsurance agent in charge of the DIMBOKRO COOPEC was advised to underwrite Corporations, the association of ethnicity and affinity groups (search and subscribe to convince the leader first), and underwrite allogeneic and Aboriginal communities. The microinsurance agent in charge of the Yakro COOPEC was advised to work with businesses, schools, hotels and women’s associations.

Follow-up also includes going through focus groups with clients, to check how well procedures and products have been understood or must be improved.

A few days after the Haiti earthquake of January 12th, AIC staff in charge of the microinsurance activities were on the ground interviewing the Protecta policyholders (a funeral microinsurance product). Different Focus groups in Port-au-Prince or Jacmel have been organized with AIC partners, the popular bank BNC, and the MFI Sogesol. Among a lot of relevant and tragic questions, are quotes from the Protecta insured (through the distribution channel BNC, a popular bank) during the Focus at Jacmel:

- “If you get the corpse out after four days and AIC can’t be contacted, what should I do?”
- “You become more and more aware of your vulnerability... What is going to happen if more disasters happen? Will funeral homes be able to manage? When the earthquake makes your family disappear under the rubble, even if the building is a two – or three – level one, how can you find the pieces to identify them?”
- “If a policy holder dies, and there is no card, at the morgue, and if the service provider buries the person anyway, without permission, because there was no communication [with AIC], then what happens?”
- “If people are buried in mass graves and if the family decides to report the death later, what does Protecta plan on doing?”

At Croix des Bouquets (suburbs of Port-au-prince), those insured by Protecta through the MFI Sogesol distribution channel, asked:

- “I used to pay regular contributions to Protecta, and now I’m two months behind, what’s going to happen?”
- “When you lose all documentary evidence (ID card, insurance membership card, etc.), how can you file a report?”

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- "In case of death who should I contact, the funeral service provider or the insurer?"
 - "As a Sogesol insured, can I pay [my contributions] in a BNC branch?" (several BNC or Sogesol agencies were destroyed during the earthquake).

So, far away from semantic and theoretical microinsurance debates, it seems crucial to recall the amazing work achieved by AIC in Haiti before, during, and after the earthquake. As of today, around 70% of the employees are living in camps, and i the staff are still enduring the earthquake aftershocks, but they are all working as usual, because they consider that microinsurance activities are crucial to the company (12).

Overcoming challenges : precise procedures and an effective Information System

Precise procedures are of course important for the monitoring of the project, to avoid wasting time in managing contracts, for better client follow-up, to improve clients awareness of their rights and detect potential fraud. Rigorous procedures also imply good training of all the staff working on the project.

Therefore, we can understand the information system is also one of the most important aspects of the project's success. It has to be of high performance, just like any other insurance information system. Looking at microinsurance projects all over the world, it is obvious that microinsurance is not reduced to a mandatory credit life product. Microinsurance has become more ambitious, more complex, with a real added value for the population. The challenge is to offer affordable software, not a Micro Information system.

Let's quote some recommendations a microinsurance Information System has to face. The software must be stable but flexible, have a well conceived security system, display simple screens, intuitive interfaces, and have a seamless navigation system. As a "Customizable" tool that allows the insurer/MFI/partner to fit the evolution of needs, the software won't depend on the development of the program (Flexible customization without programming) but will be built according to a modular approach to add-ons. Both synthetic and portfolio views of the customer are also important.

As microinsurance programs need to be a cost effective, minimizing the cost of claims notifications and fraud controls, a crucial requirement of a good Information System is the ability to generate reports, and to facilitate financial and technical monitoring. Therefore, the software has to include reporting tools and dashboards to help business decisions adapt to microinsurance. The act of generating reports has to be customized in case of other insurance programs/product development (or product change). The ability to manage back office and sales hierarchies is important to get information on the sales force's efficiency (eventually detecting frauds in the network). Other useful elements to take into account in order to avoid waste of time and money at the end of the day are: limited back office interventions (automation of functionalities in order to outsource tasks to those who have information), proper database normalization, multi-currency and multilingual, reliable internet update, able to be used with GSM/Edge with Local Cellular provider for a better communication, Intensive use of VOIP (SKYPE) to facilitate communication with agents and the use of video conferencing for training updates and meetings.

On the ground experiences also invite us to mention classical constraints (in developing countries): the lack of reliable internet communications, the non availability of internet connections, the high cost of satellite connections, scarcity of skilled resources, non availability of qualified IT specialists outside of the capital, difficulties with distribution systems (especially for retail chains) and the problem of firewalls preventing internet updates. Here again, staff training on how to use the IS is crucial. At AIC, like at UNACOOPEC, a user manual has been developed for the agents.

Claims Settlement and Reinsurance

No microinsurance program could work without good claims settlement procedures. Paying claims quickly but without being lax is not easy. However, it is necessary. Some insurers (AIC in Haiti,

Groupama in Vietnam, VimoSewa in India, etc.) have decided to help beneficiaries complete their forms. In any case, simplifying documents and adapting them to local constraints is recommended: burial certificate, letter from a priest or imam certifying the death of the faithful (in the absence of a death certificate). As mentioned above through the Kenyan Focus Groups, people want to know the good sides of the products, but also the bad sides, including the exclusions. Our experience shows that a large majority understands clearly the features of a product, and the motivations for exclusion. Ensuring that the rejection is explained to the insured is crucial as well as the testimonials of claims settlements. Some claims settlements will be recorded (following an agreement with the family and the beneficiaries) and used as marketing materials (video broadcast in the agencies, on mobile agents' computers, in flyers, in TV or radio advertisements, etc.). Nevertheless, claims settlement is a key factor in enhancing microinsurance programs, and encourage underwriting : "Now, We know that this insurance is real" thanks one of the two beneficiaries of a deceased's policy, during the funeral of an insured, in Petit Goave (Haïti).

Still, it doesn't mean that insurers have to be careless and pay submitted claims with complete trust. Control has to be strong; a good Information System can help in this. AIC in Haiti had recently discovered a fraudulent case thanks to a strict monitoring procedure. Mrs. Isabelle Delpeche, Head of the microinsurance Department at AIC, quotes in the report "Investigative activities Mikwoasirans April 2010" at first: "The product had proved itself since the first year of its launch, when 98 cases were registered. During the second year of implementation, the evaluation of impact activities were altered, when some of the field visits were more inclined towards verification of death, and impact of the insurance cover in place within families of deceased. These actions were going to help us better measure the level of understanding of the product, impact and legitimacy of deaths. What really incited this initiative was the frequency of death within the credit portfolio of Fonkoze, and also in an effort to better understand and manage that transferred risk". Then the reason behind this field visit on April 22nd 2010 in the central Plateau: "The reason behind this visit was after having registered two cases from the business development branch in Ench belonging to the same credit agent".

The Team discovered a fraudulent action, thanks to the son of the deceased client.

According to the loan and insurance documents, the deceased client who died of diabetes had contracted her loan of 60,000 gourdes during the month of November as a business development client, and had designated her husband as beneficiary. Although [the son] was not the named beneficiary of the insurance we wanted to at least collect some feedback, on any appreciation, or impact the insurance had. To our biggest surprise, [the son] admitted to us that his mother has been bed ridden for over a year and the loan was not contracted by her. He also stated his farther fraudulently contracted the loan on behalf of his late mother. He also shared with us that his mother had been a member of Fonkoze, back in 2006. She had contracted a loan then, which was completely paid off, and his mother never re contracted any new loan with Fonkoze. He provided support documents to validate his story. When analyzed, the different documents such as: Insurance form from Nov. 2009, tax identification number from Oct 2009, CIN from 2005 and loan document Fonkoze 2006. We noticed that the signatures were indeed different. And the victim's son vows that his late mother was not the one who contracted that 60,000 gourdes loan in November 2009". The conclusion is precise : "fraudulent action was made, according to gathered feedback, which can create a bad tendency for the long term [...]".

Last but not least, the reinsurance question has to be taken into account.

When a natural disaster or riot occurs, it does not only have an impact on the microinsurance portfolio. Human resources of companies are also directly affected; MFIs clients are not able to repay loans; fraud in all the sectors increases. Two months before the earthquake in Haiti, AIC was already very concerned by the risk of hurricanes and earthquakes, and had decided to raise its reinsurance treaty. Unfortunately, when more than 300,000 people have died, more than 300,000 injured and more than 1.2 million people in shelters, with almost 50% of Haiti's national budget lost, any reinsurance treaty is not enough. The microinsurance industry should mobilize in order to help Haiti, and at first a microinsurance pioneer in the Caribbean area.

Conclusion : innovation sense, far away from mythology

At the end of the day, what we have to keep in mind in order to develop microinsurance projects is:

- Regarding Microinsurance and insurance, technical aspects are the same, but the approach needs to be much more sociological. Fitting a connection of insurance to local traditions is a pre-requisite.
- Micro-insurance supposes to innovate along the entire insurance value chain. But most of all an unflinching professionalism is essential instead of innovation for innovation's sake.

We must be very careful with innovation which could be attractive for donors but not realistic for the population. Microinsurance innovation can be a great tool for personal protection. But poorly done, it is not only doomed to failure, but could also dismantle the structure of communities, create tensions and undermine the fragile informal safety nets of local populations.

Working on microinsurance also contributes to a paradigm change for the economy and in the insurance industry, progressively plagued by short-term and immediate profit concerns. That programs must be sustainable is a fact, but microinsurance is not a magic word in a magic world.

Microfinance has paved the way for micro-insurance and can teach many lessons. We have to use past experiences in order to understand the best practices but not to fall into mythology and dogmatism. Microfinance was often described as the miracle medicine to reduce poverty. Microinsurance is more complex and needs more commitment than this simplistic image.

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(2) The Microinsurance Network was originally established in 2002 as the CGAP Working Group on Microinsurance by donor organisations, multilateral agencies, insurance professionals and other interested parties involved in the promotion and support of microinsurance in developing countries. The mission of the Microinsurance Network is to promote the development and proliferation of good-value insurance products for low-income persons by providing a platform for information sharing and stakeholder coordination in. <http://www.microinsurancenet.org/>

(3) On a per-capita basis, an average of USD3 405 was spent on insurance in the industrialized countries in 2009 and insurance penetration remained unchanged at 8,6%, whereas in 2009, an average of USD 92 per capita was spent in emerging markets, for an insurance penetration of 2,9%.

(4) Swiss Re, Swiss re sigma study "World insurance in 2009" reveals slight premium dip but improved capital, n°2/2010, 2010.

(5) William T. Vollmann *Poor people*, Ecco; First Edition edition, February 27, 2007.

(6) Michal Matul, Michael J. McCord, Caroline Phily, and Job Harms, *The Landscape of Microinsurance in Africa*, Working Paper n°4, International Labour Office, Geneva, March 2010.

(7) Martin Hintz, *Micro-Impact : Deconstructing the complex impact process of a simple microinsurance product in Indonesia*, November 2009.

(8) Peter Wrede, "The end of microinsurance?", in *Innovation Flash*, Newsletter of the ILO's Microinsurance Innovation Facility Issue 7, August 2010.

(9) In a forum dedicated to Microinsurance, the expert [Mosleh Ahmed](#) notes "It is difficult to believe that urban or rural low income households are using SMS in Bangladesh. The key-board are in English and almost 100% of the low income households do not have sufficient knowledge of English language to be able to use SMS. They are able to dial the number. The top-up is mostly done by up-loading air time by going to the vendor. The low income households don't even use scratch-cards. The scenario is different in Africa, where the low income households have reasonable command of English language and are using mobile phone for money transfer (Kenya, Nigeria, Tanzania). In Asian countries I would say Philippines is a possibility, where general public use using air-time for money transfer and for withdrawing cash. In China there are mobile phones with Chinese key-boards so there is a possibility". [Mangesh Vaitla](#), Co-Founder of C2LBIZ Solutions Pvt. Ltd. explains : « India too it is difficult for rural low income households to use SMS, the situation is compounded by the large no of languages, with each having different scripts and lack of key boards supporting each of them". Coralie Zacchino, Member Relations Officer at Microinsurance Network, quotes a study published in 2008 by the Microinsurance Network's Technology Working Group; "From the perspective of customer interface (distribution), the key challenges were cited as being the integration of technology into daily business processes in the field, reliability, ease of use, local language and support concerns and cost.

(10) Jean-Michel Severino and Jean-Michel Debrat, *L'Aide au développement*, ed. Le cavalier Bleu, Paris, 2009.

(11) See <http://www.c5-online.com/microinsurance/agenda.htm>.

(12) O. Barrau & M. Nabeth, "AIC Haiti: Microinsurance and Post-Disaster Activities", march 2010. Powerpoint Presentation, article "[Neither Fate or Curse](#)" and videos illustrating the current situation in Haiti and the work of AIC, in : www.microinsurancenet.org/challenge10.php.
