

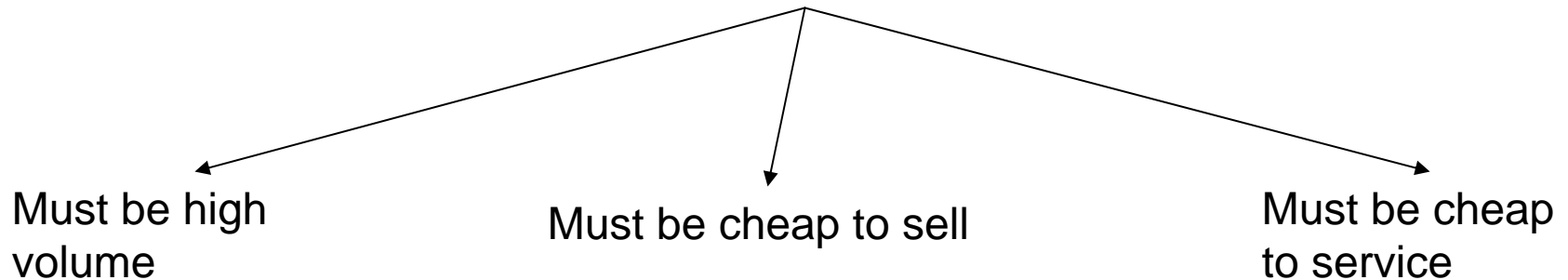
Managing Microinsurance Products

What are the delivery options?

By Jim Roth

Key Issue in Microinsurance

Low cost product



Distribution is Crucial!

Distribution Models

Using Commercial Insurers

Note that these options are not mutually exclusive



1. Partner Agent Model (partnership between a commercial insurer and an aggregator)
2. Micro agent model (a type of insurance agent)
3. Branch Offices

Without Commercial Insurers



4. Establish a co-operative/mutual
5. Small scale Informal in-house insurance

Time permits me to discuss only the first options, we can return to the last two in question time

Partner Agent Model

*Client wishes to manage its risks
through insurance*

Partner-Agent Model



premium

Benefits

*MFIs/Banks/
Other
Aggregators*

*Insurance
Company*

premium

Pros and Cons of the Partner Agent Model

Benefits of the Partner Agent Model

- ✓ Better than in-house because the synergies are maximized because both the organizations can focus on their core business and expertise
- ✓ With a single partnership agreement it is possible to sell large numbers of policies.
- ✓ Requires fewer skills for the agent than an in-house model
- ✓ Insurer has access to reinsurance

Pros and Cons of the Partner Agent Model

Benefits of the Partner Agent Model

- ✓ It reduces overhead cost of both the organizations, the agent and the insurance company: the agent can use its infrastructure for collecting premium, etc.; insurer provide the expertise on product development etc.
- ✓ Legally recognized insurance companies that have adequate reserves, adhere to capital requirements, employ certified insurance professionals, and operate under the insurance law

Pros and Cons of the Partner Agent Model

Benefits of the Partner Agent Model

- ✓ It reduces the need to build the capacity of agents e.g. NGOs and MFIs to sell insurance because the insurer can do some of this.
- ✓ Information asymmetries are minimized as the agent is familiar with the needs of clients, their situation etc. which reduces time for claims verification and settlement, receives feedback on client satisfaction and improves product design etc.
- ✓ The insurer assumes most of the risks
- ✓ The agent earns commission with minimal risks, while insurer earns profits

Pros and Cons of the Partner Agent Model

Costs of the Partner Agent Model

- × The number of agents are finite, often the biggest MFIs and NGOs are already in partnerships.
- × The insurance provider is dependent on the quality of the agent.
- × NGOs in particular are often “here today, gone tomorrow”, dependent on donor fashions and goodwill for their survival.
- × It takes time and money to build a relationship with an agent. The agent often has to be trained.
- × Conflicts of interest often occur especially when working with non-financial institutions. An NGO may develop sympathy for a client and be lax about underwriting or claims verification. Note this is less likely to occur with an MFI partner that is used to financial discipline with its lending activities.

Micro-Agent Model

- Pioneered by TATA-AIG in India.
- Involves the establishment of small scale agents that sell and service insurance products to people they know.
- The income they receive typically supplements other sources of incomes.
- Similar to marketing schemes by Tupperware, Avon and Amway.

Micro-Agent Model

- Agents appointed in villages with the help of a local NGO.
- Agents club together in groups of four and form *de facto* brokerages which in the TATA-AIG case are called Community Rural Insurance Groups (CRIGS)
- Training is done through CRIGS

Pros and Cons of the Micro Agent Model

Benefits of the Micro Agent Model

- ✓ The model creates an insurance distribution frastructure in low-income neighborhoods. In addition it creates a new profession, a micro-agent, with new livelihood opportunities in his/her vicinity.
- ✓ Sustainability - Because the position is a commercial one with financial incentives, As mentioned under the partner agent model, NGOs and MFIs are often dependent on the good will and fashion of aid flows and so their long term existence is precarious.

Pros and Cons of the Micro Agent Model

Benefits of the Micro Agent Model

- ✓ Since the sales and collection commissions go to the micro-agent directly, income goes back straight into the community.
- ✓ Being a registered firm there are good chances that the CRIG will survive, in the event of a member or leader dropping out. The leader could be replaced by another from the community thus mitigating the risk of orphaned policies.
- ✓ In the event a CRIG disbands the orphaned policies can be taken over by another CRIG that operates under the same NGO.

Pros and Cons of the Micro Agent Model

Costs of the Micro Agent Model

- × Training is costly especially in relation to premium values.
- × The transactions costs of the sales agent are cheap at first but increase as soon as they have sold to all the people they know and need to sell to strangers, especially those that live far away from the sales agent.
- × In many cases in the partner-agent model, when a claim arises, the MFI or NGO, investigates the claims themselves, pays the benefit immediately and then claims it from the insurer. Immediate claims payment helps maintain client confidence and is not possible with a CRIG methodology
- × This model is new and substantially more experience is needed before it can be reasonably evaluated

Branch Office Model

In this model insurance companies branch offices are used to sell and service not only high value insurance products but also microinsurance products

Pros and Cons of the Branch Office Model

Benefits of the Branch Office Model

- ✓ No additional costs for microinsurance products
- ✓ Create a sense of stability – help build trust
- ✓ Fewer intermediaries – so in principle transactions can be faster

Pros and Cons of the Branch office model

Costs of the Branch Office Model

- × Staff often work on commission, unhappy to dedicate time to low income products.
- × Clients may feel intimidated by the office.
- × May be costly for the client, in the other models the agent goes to the client.
- × Service staff may have little understanding of the market.
- × No immediate economies of scale

Concluding Remarks

- No model is necessarily the best.
- All can be tried, some models work best in some places.
- Timing of model implementation may be important for example first Micro-agent then branch office.

Thank You