



MAKING FINANCIAL MARKETS WORK FOR THE POOR

FORD FOUNDATION

Strengthen democratic values, reduce poverty and injustice,
promote international cooperation and advance human achievement

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- Retailer distribution of microinsurance in South Africa
- Case study
Microinsurance Conference 2006
22 November 2006



Overview of presentation

- Introduction to retailer model
- Regulatory environment
- Who are the low-income clients?
- Nature of products and processes
- Models and examples

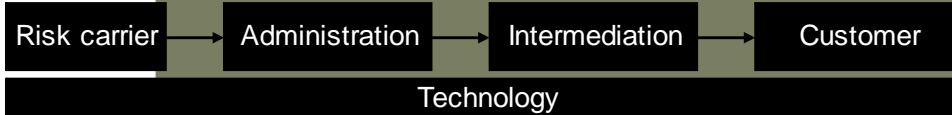
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Introduction to retailer intermediation

The insurance value chain

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

Distribution channel



Policy origination, premium collection, policy administration

Adapted from Leach, 2005

- Intermediation involves large number of activities (sales, premium collection, claims payment, etc.)
- Focus on role of retailer as intermediary (but also play role as administrator and risk carrier)
- Commercial models
- Large franchised retailers (clothing, groceries and furniture)

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Introduction to retailer intermediation

Retailer appeal

- 6,500 stores - Low cost distribution utilising existing infrastructure
- Strong brand presence and trust
- Of store card holders
 - 97% no general insurance
 - 80% no life insurance
- BUT
 - Only 5% noted retailers as preferred channel for financial products
 - 55%/66% not consider buying general/life insurance at all

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Introduction to retailer intermediation

3 models

- Standalone: Shoprite/HTG, Pep/Hollard
- Account-based: Jet/Hollard
- Bundled/embedded: Ellerines Group

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Regulatory environment

- LT and ST Acts defines space
- Funeral insurance
 - Benefits capped at R10k
 - Commissions not capped
- FAIS Act regulates intermediation
- Charter for formal insurers (not retailers)

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Who are the low-income clients?

The Hard to Reach

Distribution potential

- 49% or 9.4m of LSM 1-5 adult population
- Only group distribution possible? Have to be reached through **client concentration strategies**
- Very low personal income (R254/month). Is it possible to sell insurance to this group? Need for government intervention?
- Low formal and informal insurance usage. 10% (940k) member of burial society
- 3% has store card or account

The Innovative Distribution Group

Distribution potential

- 18.4% or 3.6m of LSM 1-5 adult population
- Odds stacked against individual selling. Have to be reached through **client concentration strategies**.
- 22% member of burial society
- 5% has store card or account
- 19% own at least once cell phone within household, 12% has own prepaid cell phone

The Easy to Reach

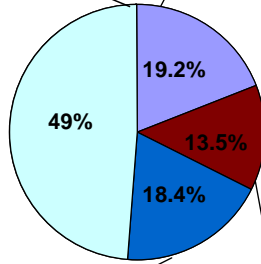
Distribution potential

- 19.2% or 3.9m individuals of LSM 1-5 adult population
- Group with highest insurance usage
- 61% of individuals without any formal insurance fall in FSM 4 or higher
- Strongest case for individual distribution
- 56% (2m) has bank account but no form of formal insurance
- Short-term insurance: 54% own 3 or more of possible 14 assets

The Flexible Premium Group

Distribution potential

- 13.5% or 2.6m of LSM 1-5 adult population
- Individual distribution still possible
- 82% (2.1m) has bank account but no form of formal insurance
- 84% (583k) of store card/account holders do not have life insurance
- Short-term insurance: 60% own 3 or more of possible 14 assets



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Who are the low-income clients?

Opportunities

No formal insurance, but...

Cell-phone linked distribution potential is huge especially for 1.5m who are not banked

Sell to 1.4m store card/account holders

Sell to 4.2m underserved banked clients

	Banked	Prepaid cell phone	Store card/ account	Burial society member
The Easy to Reach	2,025,381	704,749	494,702	417,179
The Flexible Premium Group	2,142,728	1,076,156	495,307	237,102
The Innovative Distribution Group	...	414,133	91,702	690,194
The Hard to Reach	...	1,116,492	282,806	812,825
Total	4,168,109	3,311,530	1,364,517	2,157,300

80% (1.2m) of these burial society members are not banked and do not have a cell phone or store card/account

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Nature of products and processes

Salient features

- Voluntary vs compulsory
- Bundled, embedded or standalone
- Complex vs simple products
- Passive vs active sales
- Advice, disclosure and tick-box selling
- Cash vs account-based (premium collection)

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Models and examples: Standalone

Feature	Shoprite/HTG	Pep/Hollard
Target market		
Products		
Voluntary vs compulsory		
Bundled, embedded or standalone		
Product Complexity		
Passive vs active sales		
Advice		
Premium collection		
Claims payment		

Models and examples: Standalone

Feature	Shoprite/HTG	Pep/Hollard
Target market	LSM 2-6	LSM 2-6
Products	Funeral insurance	Funeral, cell-phone insurance and personal disability
Voluntary vs compulsory	Voluntary	Voluntary
Bundled, embedded or standalone	Standalone	Standalone
Product Complexity	Simple	Simple
Passive vs active sales	Passive	Passive
Advice	Tick-box selling (No advice, no verbal disclosure)	Tick-box selling (No advice, disclosure/ advice on request through CC)
Premium collection	Cash	Cash or debit order
Claims payment	Via bank account or HTG outlet	Product replacement or benefit paid through bank account, undertaker or burial society

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Models and examples: Account-based

Feature	Jet/Hollard
Target market	LSM 4-7: Accountholders
Products	Credit life, unemployment insurance, funeral, life, personal accident and cell phone insurance.
Voluntary vs compulsory	Voluntary
Bundled, embedded or standalone	Standalone. Not linked to specific purchase, but requires client to be accountholder
Product Complexity	Simple to more complex
Passive vs active sales	Passive (Part of account opening)
Advice	Tick-box selling (No advice, disclosure/ advice on request through CC)
Premium collection	Cash or debit order (as part of payments on account)
Claims payment	Bank account

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Models and examples: Bundled/embedded

Feature	Ellerines Group
Target market	LSM 3-10
Products	Credit life with riders: funeral (policyholder only), unemployment insurance, HIV Aids treatment and asset/warranty. Cover ceases on repayment of credit
Voluntary vs compulsory	Compulsory (choice of provider)
Bundled, embedded or standalone	Bundled (embedded in practice)
Product Complexity	Complex
Passive vs active sales	No sale required
Advice	No advice or verbal disclosure
Premium collection	Debit order (as part of repayment of loan)
Claims payment	Not clear. Likely to be into bank account, but may allow for cash payments or replacement of product.

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Strengthening the financial system, reducing poverty and increasing financial inclusion through micro-finance, insurance and other financial products

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Feature	Shoprite/HTG	Pep/Hollard	Jet/Hollard	Ellerines Group
Target market	LSM 2-6	LSM 2-6	LSM 4-7	LSM 3-10
Products	Funeral insurance	Funeral, cell phone insurance and personal	insurance, funeral, life,	insurance, HIV Aids
Voluntary vs compulsory	Voluntary	Voluntary	Voluntary	Compulsory (choice of provider)
Bundled, embedded or standalone	Standalone		accountholder	Embedded in
Complex vs simple products	Simple			
Passive vs active sales	Passive			
Advice, disclosure and tick-box selling	Tick-box selling (No advice/disclosure)	Tick-box selling (No advice/disclosure)	Tick-box selling (No advice/disclosure)	
Premium collection	Cash		account	part of loan
Claims payment	Via bank account or HTG outlet	Product replacement or benefit paid through bank account, undertaker or burial society	Bank account	Not clear. Likely to be into bank account, but may allow for cash payments or replacement of product

Strong retailer brand presence and trust (risk)

Success still largely limited to funeral insurance and compulsory

Will passive models achieve take-up on voluntary sales? Who is the market maker?

Regulatory outcome on tick-box selling: Can commoditisation and disclosure compensate for the absence of advice?

Use of cell phones to improve persistency

Claims payment remains an issue

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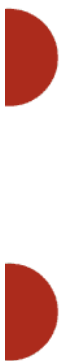
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Discussion