Microinsurance product development for microfinance providers

MICROFINANCE CENTRE

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"Developing partnerships to insure the world's poor"

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Enabling poor rural people to overcome poverty

Microinsurance product development for microfinance providers

by
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MicroInsurance Centre, LLC

This manual was developed as part of the IFAD project Facilitating Widespread Access to Microinsurance Services, managed by the Microfinance Centre and implemented by the MicroInsurance Centre, LLC

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Foreword

This document is intended to aid delivery channels, microfinance providers in particular, in working with insurance companies to develop successful microinsurance products for the low-income market. A systematic new-product development process is crucial to the success of microinsurance products for many reasons, including:

- Saving money – by maximizing the potential for product success;
- Saving management and staff time – by ensuring, within reason, that the product has market demand, and by working out staff and systems issues early in the process, when it is easier and cheaper to make changes;
- Generating goodwill in one's market – by offering products that will not have to be withdrawn or substantially altered once they are offered throughout the market.

The process outlined in this manual will help microinsurance developers create successful microinsurance products. 'Success' means meeting the needs of the three major parties in the microinsurance relationship: low-income policyholders, the insurer and delivery channels.

- For low-income policyholders:
  - Affordable, accessible, responsive products that help reduce the net household or business risk and represent real value to the household of the policyholder.
- For insurers:
  - Reasonably profitable products and the expansion of the insurer's risk pool and market;
  - Lessons learned through servicing large volumes that may be replicable to other aspects of their business.
- For delivery channels:
  - An additional, indirect income stream resulting from more financially stable clients/members;
  - Competitive advantages based on products that are needed and demanded in the market;
  - An additional direct income stream through commissions.

Ultimately, success for all parties relies on the market finding real value in the products offered. Some criteria of real value include:[1]

- Product coverage meets real risks faced by low-income households;
- Premium payment schedules reflect policyholders' cash flows;
- Product components are easily understood and not deceptive;
- Procedures for claiming benefits are simple;
- The portion of premiums being used to pay claims ('claims ratio') is relatively high;
- Expenses are kept as low as possible;
- Net income (profit) to the insurer and the delivery channel is fair.

The efforts outlined in this manual should always be weighed against these definitions of success and these criteria for real value. The new-product development process presented here should help each party move towards these objectives.

Of course, developing a microinsurance product, bringing it to market, and making sure that the product benefits clients and is managed efficiently is challenging. Microfinance institutions (MFIs) that do not follow an organized new-product development process find that they spend more on fixing the problems that occur than they would have on product development because:

- They did not pilot test and failed to identify major issues before roll-out;
- Their marketing methods are found ineffective across their whole market, rather than being addressed while still at a small scale;
- Products do not respond to clients' needs, and as a result there is little effective demand;
- They have not tracked product performance, which might have shown problems before they resulted in client dissatisfaction and ill will;
- Some components of their product may have been strong, but key weaknesses might have been overlooked, as there was no effective structure to assess the product;
- Poor partnerships were developed (due to selection of inappropriate partners or poorly defined roles), leading to reputation problems for the microfinance institution.

[1] Adapted from Wohlner (2008).

A controlled product development process can save an institution from serious problems before issues arise, and it can help improve an institution's confidence in the potential success of a microinsurance product.

This manual includes several samples and templates to facilitate various aspects of the product development process. These are offered as guides, and institutions are encouraged to adapt them to their particular needs. It is hoped that they prove to be as flexible as needed. The author would appreciate receiving examples of modifications to the tools or indeed other tools that people use in the product development process.

For those embarking on the process of product development, a sample checklist is provided in appendix 9 that covers key activities from each of the steps in the product development process.

It is hoped that this manual, the tools provided in the appendices and the suggestions for further investigation will help MFIs work for their clients in developing and managing products that offer value.

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Appreciation goes to action research partners in Armenia and Viet Nam, as well as to MFN-WGMi members that tested various components of the manual within their own institutions. In particular, the thoughtful comments of Motaz el Tabaa (Alexandria Business Association), Mariana Torres (Compartamos), Susan Trinidad (Tulay sa Pag-unlad, Inc., the Philippines) and Charles Mutua (Swedish Cooperative Association) provided important practical inputs.

Roland Steinmann of the MicroInsurance Centre persevered as a reviewer with significant insights through several versions. Francis Somerwell provided comments that were helpful in considering the document from a microinsurer's perspective. Molly Ingram provided useful technical editing and revised several of the diagrams to improve clarity. Emily Zimmerman also provided valuable assistance with technical editing. Participants in numerous training classes, including those specifically focused on product development, have also provided constructive inputs. This guide was finalized with the editing support of Chris Jarzombek and Lynn Ball.

Some sections of this paper are drawn from the author's work on Pilot Testing and Roll-Out manuals for MicroSave. The present manual adapts to microinsurance some of the ideas developed at that time for credit and savings products.

Without the inputs of any of these people, this would be a lesser document. Appreciation goes to each of them. Of course, errors or other issues remain the sole responsibility of the author.

Acronyms

ADA	Appui au Developpement Autonome
ASA	Association for Social Advancement
BRAC	Bangladesh Rural Advancement Committee
BRS	Belgian Raiffeisen Foundation
CGAP	Consultative Group to Assist the Poor
EBS	Equity Building Society (now Equity Bank of Kenya)
FMMB	Fundación Mundial de la Mujer Bucaramanga
IFAD	International Fund for Agricultural Development
IT	information technology
MFI	microfinance institution
MFC	Microfinance Centre
MFN	MicroFinance Network
MFN-WGMi	MFN Working Group on Microinsurance
MI	microinsurance
MIS	management information system
NGO	non-governmental organization
PMFI	Progressive Microfinance Institution
PSHM	Partneri Shqiptar ne Mikrokredi
TPA	third-party administrator
USAID	United States Agency for International Development
USAID AMAP	USAID Accelerated Microenterprise Advancement Program
USAID DISH	USAID Delivery of Improved Services for Health Project

1. Introduction

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1. Introduction

Microinsurance is like any other insurance in that it provides a hedge against loss. Where it differs is that microinsurance is targeted to a specific market: low-income populations. As such, it requires a different set of parameters in the way products are developed, marketed, priced and sold.

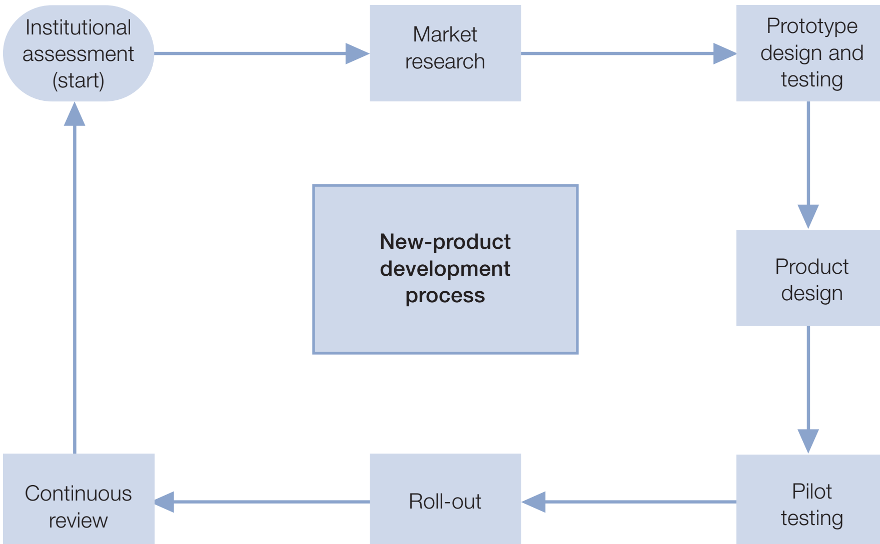
The tools and assumptions used for other types of insurance are not appropriate to the development of microinsurance (table 1). The product development process outlined in this paper recognizes these differences, and it provides a process for making microinsurance responsive to this particular market segment and successful as a business proposition.

Table 1. Selected differences between conventional insurance and microinsurance

	Conventional insurance	Microinsurance
Delivery channels	Sold by licensed agents or brokers to the wealthy, the middle class or companies that typically understand insurance	Often sold by unlicensed non-traditional agents to low-income persons, preferably in groups, requiring significant product education
Controls	Screening requirements may include a medical examination or other tests	If there are any screening requirements, they are very limited in order to control costs/ Controls are appropriate to the market
Premium collection	Typically regular annual, quarterly or monthly payments	Frequent or irregular premium payments Matches cash flow cycles
Premium calculation	Based on age and other specific risk characteristics	Group pricing with links to other services/ Diverse risk structures
Policies	Complex policy document, many exclusions, usually annual terms	Simple language, few or no exclusions, terms appropriate to market
Claims	Claims process for large sums insured may be quite difficult	Claims process for small sums insured is simple and fast, yet still controls fraud

Product development for microinsurance is a long and intensive process. This manual breaks it down into manageable steps and provides guidelines and tools for implementing each of the steps.

Figure 1. Systematic product development process for microinsurance



The following steps of new-product development are addressed in detail:

- **Institutional assessment:** Some institutions lack the capacity to provide microinsurance; others lack the will. While certain shortcomings can be addressed, an institution should understand the commitment it is making before embarking on product development.
- **Market research:** Understanding the market is crucial. Demand, supply, delivery channels, regulations and education level of potential clients all drive how a product should be developed. Institutions will need an intimate understanding of the market in order to craft a successful product.
- **Prototype design and testing:** Before rolling out a full product, it is necessary to design a prototype to evaluate the market's response to the product and to educate the public about its value.
- **Partnerships:** Most institutions will need partners to provide microinsurance. Evaluating and selecting the right partner will affect the quality and success of the product.

- **Product design:** A product that is successful in one market may not be successful in another. Nevertheless, every microinsurance product needs to be S.U.A.V.E. – simple, understood, appropriate, valuable and efficient.
- **Pilot testing:** Products should be tested on a small scale. It is easier to address problems in a trial run than after a product is fully implemented.
- **Roll-out:** Once a product has been shown to be feasible and successful on a small scale, it can be made available to a wider audience. Even so, scaling up has its own challenges.
- **Continuous assessment:** Even after a successful roll-out, products must be continually monitored to ensure that they are meeting the needs of all stakeholders. New information may come to light once a product has been available for an extended period.

Successful product development requires that all these steps be followed carefully. A sample time line for implementing them can be found in appendix 1, while appendix 9 provides a checklist that covers the key activities of each of the steps. Other tools will be discussed as appropriate. The process outlined in this manual will help MFIs[2] develop successful microinsurance products effectively and efficiently.

[2] This paper uses the term 'MFI' to represent the institution that serves as the delivery channel for microinsurance. However, the term is not meant to be exclusive of other types of institutions that may wish to develop microinsurance products.

2. Institutional assessment

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2. Institutional assessment

Determine preparedness

Product development is challenging. An institution needs to determine whether it is prepared for the work ahead. Managers should ask questions of the following type:[3]

- **Motivation: Are we developing a microinsurance product to respond to market demand?** There are many reasons to develop microinsurance products: anticipated profits, market expansion and penetration, competitive advantages and corporate social responsibility, among others. However, none of these objectives will be met unless the product responds to market demand. Of course, there may not be a demand if the market does not understand the purpose of the product. This may require educating the market about microinsurance as a response to their risk-management needs.
- **Commitment: Are we ready for the long process of product development?** Product development does not happen overnight. Full launch might not occur for a year or more, and profits might not come for several more years. An institution must be sure it is committed to serving the low-income market through insurance products before embarking on product development. Without commitment at the staff, management and board levels, the institution will simply waste time and resources, and potentially sour the market.
- **Capacity: Do we have the ability to focus on the development of a microinsurance product?** To implement microinsurance effectively, throughout the institution there must be: (i) understanding of microinsurance and the market; and (ii) excess capacity to provide critical inputs. Institutions that are growing very rapidly, or are in crisis within their traditional markets, or do not yet have core product lines stabilized may not have sufficient time or resources to devote to product development.

[3] These questions are adapted from Wright, et al. (2003).

- **Cost-effectiveness: Can we use innovation to reduce the costs of microinsurance operations?** Microinsurance, even more than many other products, requires efficiency in marketing, delivery, servicing and management in order to: (i) keep premiums within a range that the low-income market will find accessible; and (ii) result in better than break-even operations. Institutions embarking on microinsurance development must constantly work to reduce the cost of operations. Companies must innovate in process, product or people to address the need for improved cost-effectiveness.
- **Simplicity: Can we develop products that are simple for our policyholders and us?** In the microinsurance market, products must be simple. They require simple terms, marketing, policy documents, premium payment and claims procedures, with limited exclusions (or preferably none). For most insurance companies, simplicity is the most difficult of the requirements. It makes little sense to provide a 10-page detailed policy document to each policyholder when policyholders cannot read. Complexity can also waste time and resources, as when an agent needs to spend the time to fully explain a long, detailed document that includes many irrelevant points. Claims are critical in showing the market that insurers actually do keep their word; and confusing policies can make beneficiaries feel they have been cheated. Additionally, with low-benefit policies, it is important to reconsider the costs that MFIs are willing to bear to effectively manage such products. An institution that is inflexible and unwilling to make significant adjustments to improve the efficiency of its business operations is not suitable for microinsurance.
- **Budget: Is there a budget available to effectively implement a product development process?** Institutions should budget for each step of product development. Some expenses, such as those for demand and supply research, may be mitigated through in-house capacity. However, many costs, at least in terms of staff and management time, supplies, marketing, transport and others, may be unavoidable. Should one require outsourcing of demand research, for example, this might cost anywhere from US$5,000 to US$50,000 depending on who provides the services.

Select product champion

Once an institution has determined that it is prepared to move forward, it needs to select a product 'champion' to manage the product development process. Product champions shepherd the product development process and ensure that it gets the support and resources it needs. The champion may be a product development specialist or a manager within the institution, but s/he should have the following characteristics:

- Some understanding of both insurance and the low-income market, since the project will bring these areas together;
- The respect of management and the board, so they can keep these top-level leaders informed of the project's progress and maintain their commitment;
- Leadership skills that include the ability to work with various types of people and diverse skill sets;
- Flexibility and imagination, with openness to considering and implementing new and innovative solutions.

Perform internal assessment

The champion should perform a thorough and honest institutional assessment, reviewing the institution to determine whether it and its people are ready for microinsurance development. In reviewing areas within the institution, several are critical, including:

- Institutional strategy
- Organizational culture
- Marketing
- Financial viability
- Human resources
- Partnerships
- Systems

A sample checklist of questions is provided in appendix 2. Each institution should make this assessment in advance of any significant expenditure. The checklist will help management assess whether microinsurance is even appropriate for the institution, and if so, what areas need to be addressed prior to starting product development.

It is critical to carry out the assessment honestly. It can be exciting for an institution to embark on new product development, but in its zeal to move forward, it may overlook serious deficiencies. The results of the product champion's assessment should be taken seriously and should lead to corrective measures. Addressing deficiencies early on can prevent larger problems and expenses later.

Begin project

Once the assessment is concluded and the gaps are addressed (or at least a realistic plan to address them is developed), the board or senior management should provide the product champion with a mandate to begin the product development process. At that point, the champion should identify a core product development team. This team will include people from areas critical to the success of the project, such as representatives of operations, finance, information technology (IT), training, marketing and potentially others.

Box 1
Factors that have led to product development success at Equity Building Society

Equity Building Society (EBS – now Equity Bank of Kenya) implemented a systematic product development process for all new products and, as a result, is well known for its aggressive and successful growth.

1. **Donors left product development to the managers of EBS.** Actual product development and delivery are left to EBS management, and they are not pushed to offer products and services or to work in new regions before the institution is ready.
2. **Product design is driven by client demand.** The challenge is to develop a variety of flexible financial services with terms suitable to client cash flow.
3. **EBS put in place the basic institutional capacity needed to embark on product development.** The commitment of the EBS board and management ensured that adequate staff and resources were allocated to the product development process. The early assignment of a product 'champion' was a crucial part of the success of the process.
4. **EBS followed a systematic product development process.** Following a systematic process helped EBS avoid common pitfalls, such as higher-than-anticipated set-up costs, products with limited demand, and a staff insufficiently trained to market and deliver the new products.

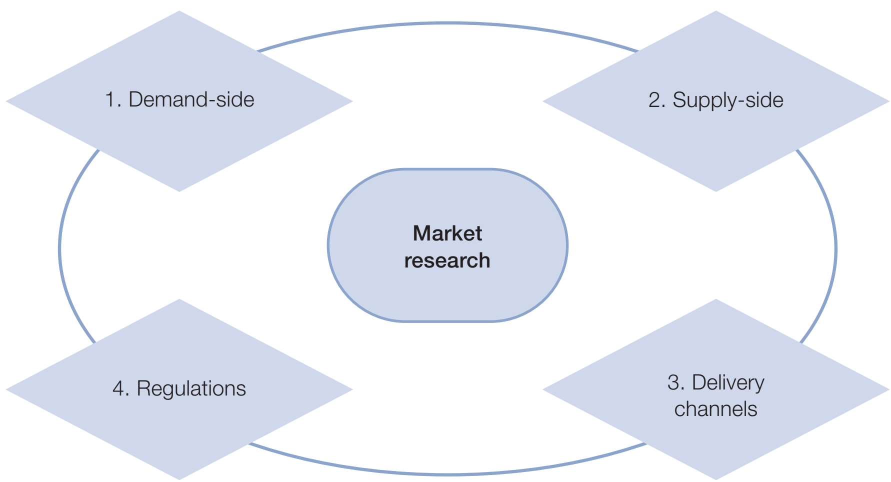
Source: Craig and Goodwin-Groen (2003).

3. Market research

3. Market research

Creating a successful product depends on understanding the market. It might seem that a product that had proven successful in one market could be transplanted to another. But experience shows that this is not the case. Markets (whether they be the size of a country or as small as a neighbourhood) differ in their needs, resources and regulations. And addressing these factors determines the success of a product.

A true understanding of the market includes understanding:



- **Demand:** What does the market perceive as its needs?
- **Supply:** What insurers are already in the market or planning to get in? What do they offer? How do they offer it?
- **Delivery:** What delivery options are available? Is there interest from others? Who is already active in delivering microinsurance products to the market?
- **Regulations:** How might the regulatory, supervisory and policy environment impact microinsurance provision?

The following sections discuss market research from each of these perspectives.

Demand research

"Market research on demand can inform decisions about whether to enter the market, what type of product to introduce, and what market segments to target. Once a general product concept has been identified, market research can help identify specific product attributes that match the needs, preferences, cash flow patterns and other capacities of the target market." – *Accelerated Microenterprise Advancement Program (AMAP) of the United States Agency for International Development (USAID)* (Sebstad, Cohen and McGuinness 2006).

Understanding the needs of the market is critical to successfully meeting demand. As such, market research plays an important role throughout the product development process, and frequent, formal information-gathering from clients is critical.

Fundamentally, market research attempts to understand what it is that people need. Because low-income people generally have a limited understanding of insurance (or worse, a negative attitude towards it), market research focuses on the risks they face. This includes asking:

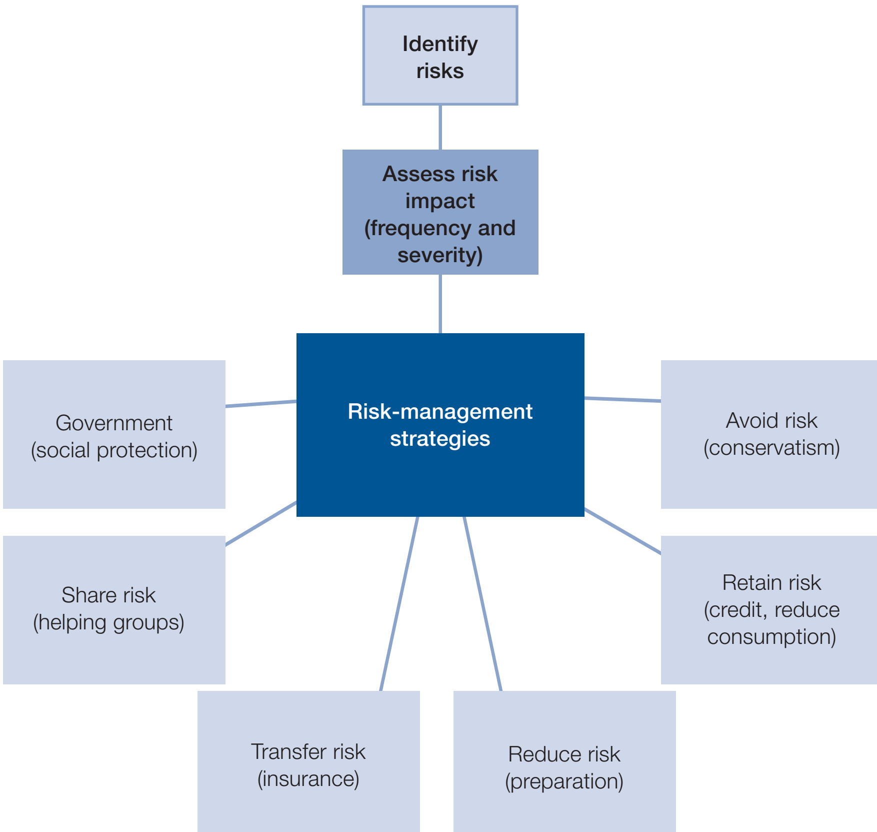
- What risks do you face?
- How do you manage those risks now?
- How sufficient are those risk-management efforts? Where do those risk-management efforts leave gaps in your ability to cope?

The financial risks that people face and how they respond to them are often different from market to market, and they are influenced by economic, social, religious, environmental, cultural and political factors. Some risks will be insurable, some may not be. For example, a common 'risk' mentioned by low-income people is that of paying regular school fees. But this type of risk is likely better addressed by another tool, such as savings.

There are many ways to manage risk (figure 2). Low-income people tend to rely on:

- Avoiding and reducing risk, which limits their options and reduces their opportunities;
- Sharing risk among family and local social groups, but these groups tend to be low-income as well, and thus have limited ability to assist;
- Retaining risk by borrowing, using savings, reducing 'discretionary' costs such as nutrition and schooling, and selling productive and non-productive assets when faced with a shock. However, this strategy expends hard-won gains and tends to keep people at low income levels.

Figure 2. Risk-management strategies



Source: Michael J. McCord. *Training curriculum*. Boulder Microfinance Training Institute, Turin, Italy, 2007. Excerpts available from author (see contact details on page 8 of this publication).

Unlike wealthier people, who can often afford to transfer risk, these strategies are insufficient to keep low-income people from financial difficulties when shocks occur.

Once the risks and the strategies for meeting those risks are understood, it becomes easier to see the gaps and thus the demands present in the market. For example, in Jordan (as in other countries), when a breadwinner dies the funeral costs are typically low and easily borne by family members. However, what happens to the surviving family members after the funeral is a different story.

The family typically has few strategies for compensating the lost income; they often have insufficient savings or other tools to mitigate the loss. This is a gap that insurance might fill. It might help keep the children in school, allow for some income-producing business investment, or in other ways help the family survive without the breadwinner. See figure 3 for additional examples.

Figure 3: Risk consequences

Risk event	→	Consequences of shocks	→	Selected responses	→	Secondary shock impacts
Death Illness Property loss		Income loss Asset loss Need for lump sum of cash		Draw on formal and informal group mechanisms Use savings Borrow from formal or informal sources Sell assets Default on loans		Reallocated household resources Depleted assets and financial reserves Indebtedness – claim on future income flow Loss of income Loss of access to financial markets Untreated health problems

Source: Cohen and McCord (2003).

Learning about risks, strategies and gaps for low-income households requires qualitative research in order to understand the details behind the decisions people make. These details help develop an effective product prototype. *Guidelines for market research on the demand for microinsurance* (Sebstad, Cohen and McGuinness 2006), published by the USAID AMAP project, is an exceptional tool for conducting qualitative research. It provides examples, topics, issues and checklists for gathering this information.

Supply research

When planning a new product, it is important to understand what is already available, or soon to be available, within the prospective market. There are lessons to be learned from the successes and failures of organizations offering similar products, but if the new products will be directly competing with existing products, it is important to consider whether the market is big enough to support two similar products. An institution can obtain key information that will help it appeal to the market and to build in competitive advantages within the product details. Such an assessment can also help indicate where the institution might tap into a relevant skills base.

Available supply may come from legal or extra-legal sources. The objective at this point is not to focus on the legality of these different insurers, but to understand how each type of microinsurer operates, and what one can learn from the products and processes of each. Regulatory issues are addressed below.

It is useful to compare institutions and their offerings side by side, examining the *9 Ps of marketing*: product, price, promotion, place, positioning, physical evidence, people, process and partnerships. An example matrix is included as appendix 3 and should be adjusted to suit the particular characteristics of the likely product.

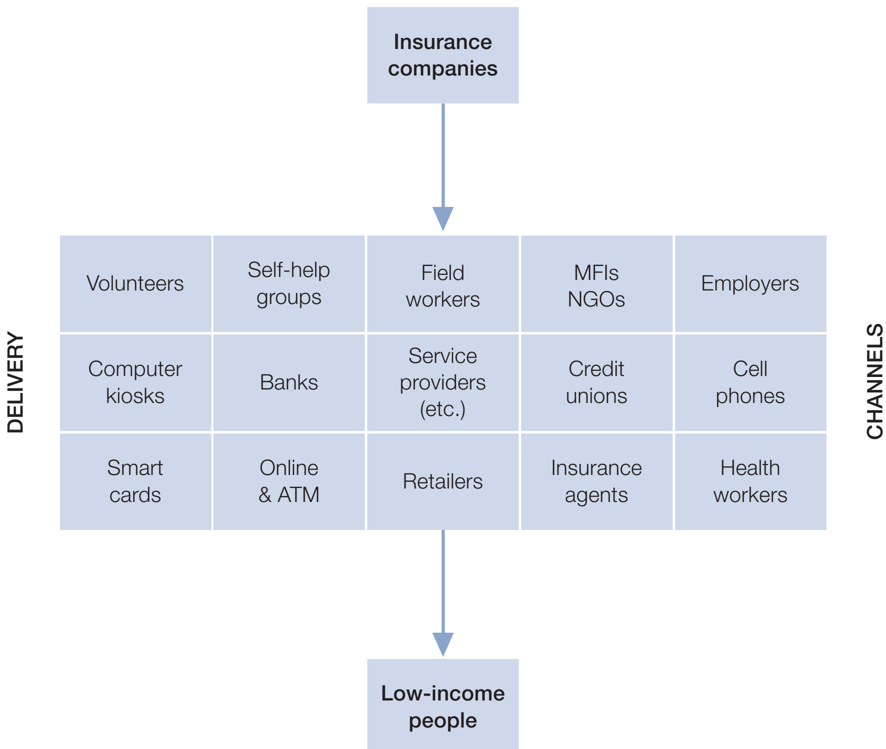
Delivery channels

Generally, commercial insurers do not deliver microinsurance through their own agents. The various delivery models include:

- Offering products through another institution, such as an MFI (e.g. Zurich Insurance offers its products through BancoSol in Bolivia, and in Jordan it offers products through the MicroFund for Women);
- Identifying agents through non-governmental organizations (NGOs) and other organizations that work in low-income markets (e.g. Tata AIG in India);
- Creating a separate agent staff that the insurer manages directly (e.g. Delta Life in Bangladesh);
- Delivering microinsurance among their own members without the need for separate agents (e.g. some community-based insurers).

In addition to different models of distribution, the channels themselves are varied (figure 4). Some insurers, such as AIG in Indonesia, sell insurance through retail shops and post offices. Others, such as Microcare in Uganda, sell through employers of very-low-income workers. Still others, such as Gemini Life Insurance in Ghana, work only through rural banks and MFIs.

Figure 4: Delivery channels



There is a great deal of experimentation in delivery because it is a key cost driver. As microinsurance relies on low-value premiums, it is critical to reduce the costs of offering it as much as possible. The optimal delivery channel will tap into a large market, keep delivery costs very low and display integrity. It is likely that technology will take on an ever greater role in microinsurance delivery as a way to reduce costs.

Understanding the range of delivery channels may help an institution become more efficient by adopting or innovating new mechanisms based on what is learned from existing channels.

Regulations (including supervision and policy)

Legal and regulatory issues come into play throughout the development and implementation of a new microinsurance product. As microinsurance expands, more and more insurance supervisors are taking notice, and it is likely that regulatory and supervisory issues will become more significant.

In any case, it is important to understand how the law will affect planned activities and to know the level of flexibility available for microinsurance. Understanding potential issues in advance could save considerable effort and time. Some potential issues to bear in mind include:

- **Licensure requirements for insurers.** Some MFIs manage the insurance risk on their own, thus acting as insurers but without meeting legal requirements.
- **Licensure requirements for agents and brokers.** Clear regulations exist in almost every jurisdiction that define the requirements for anyone who sells insurance.
- **The role unlicensed parties can play in the marketing and sale of insurance and in claims administration.** All these activities are often managed by MFIs, but care must be taken not to circumvent regulations.
- **Product registration.** In many countries, insurance products must be reviewed by insurance supervisors, potentially adding to development time. More importantly, if supervisors' understanding of microinsurance is insufficient, they may set requirements inappropriate to microinsurance.
- **Restrictions under business-sector laws applicable to delivery channels.** Banking regulations may also impact the ability of an MFI to offer microinsurance as an agent.
- **Policy content requirements.** In an effort to enhance consumer protection, regulators may enforce unnecessary requirements such as difficult policy language.

Processes must conform to the legal framework, especially when microinsurance products are provided by an insurer regulated under a country's insurance act. There are many ways in which diverse types of microinsurance may be offered, and these may come with significantly different regulatory and supervisory requirements. An institution that wants to create an insurance company to serve the low-income market will need to register the company under the full requirements of the insurance law. In some countries, such as India, there is a specialized microinsurance law. In others, such as the Philippines, there are alternative laws that allow mutual benefit associations to operate with fewer requirements than those imposed on traditional insurers. That said, the typical means of microinsurance provision is still likely to involve a regulated insurance company and a delivery channel. Commonly, these relationships operate under existing legislation and supervision. Thus it is important to understand these – at least in terms of planned activities.

MFIs should have an attorney review the laws to identify potential conflicts. Additionally, they should understand the legal requirements for agents. Most countries require agents to be registered, which commonly involves completing course work, passing an exam and paying a fee to register. Such requirements are not always viable for common delivery channels for microinsurance. Some countries have laws allowing for institutional agents ('juridical persons' acting as agents). The requirements for these are often more manageable for a delivery channel.

In many countries, microinsurance development has benefited from regulatory forbearance. However, as microinsurance expands and becomes more visible, such forbearance cannot be expected to last indefinitely. Thus it is no longer appropriate to assume that a government that promotes financial inclusion also has loose restrictions on such promotion. More and more countries are implementing regulations that will impact the development and offering of microinsurance.

The legal requirements pertaining to product registration may lengthen or hinder product development. Several countries require insurance products to be registered and approved (either actively or passively) by the insurance supervisor. In others, an insurer must register a line of business that is broadly enough defined that even a specialized microinsurance product could fit. These situations are not typically burdensome. But some markets, such as India, require every product to be registered, which can lead to significant delays.[4]

Finally, it is important for MFIs to confirm that offering a microinsurance product as an agent (or otherwise) is acceptable by the legislation under which they are registered. Retailers and other non-financial-sector businesses typically have no problem in this area, but banks and MFIs often have clear and specific legally acceptable roles. For example, Compartamos in Mexico experienced a significant delay in offering even basic life microinsurance as an agent because the legislation under which it was originally registered did not allow it to act as one. In the Philippines, it became possible for rural banks to act as agents only through the combined effort of the insurance commission and the central bank.

Not registering as an agent – individual or institutional – does not typically eliminate the possibility of an MFI selling microinsurance. But management should be reasonably sure that it clearly understands the requirements for selling simple microinsurance products in its jurisdiction. Commonly, insurance supervisors will allow the activity with some requirement of responsibility placed on the insurer. More and more countries are reviewing insurance laws and developing microinsurance regulations and/or policies. MFIs should follow these discussions closely.

For those with potentially more complex microinsurance provision structures, the document *Issues in the regulation and supervision of microinsurance* (International Association of Insurance Supervisors 2007) is a helpful reference.

[4] Note that it is the regulated insurer that submits the product design to the insurance authority for approval.

4. Prototype design and testing

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4. Prototype design and testing

Once the components of the market research are completed, a summary market analysis can be developed. This forms the basis for further prototype design.

Importance of prototype

Before rolling out, a new product needs to have a prototype. Prototypes can take various forms. Some MFIs rely on very simple ones. For example, they give a product description to only a small set of potential buyers. These 'buyers' are questioned about whether they would want the product. This information is then used to further refine the product.

The prototype allows the MFI to hold a trial run before investing in the large-scale true product. The MFI can test its plans and market assumptions in the real world and make the necessary changes early.

Prototypes have many benefits. They:

- Are relatively small and manageable;
- Are relatively cheap (and much cheaper than correcting problems on a large scale);
- Provide real-world feedback on assumptions and designs (as well as potential ways to correct mistakes);
- Do not have enough scale to seriously damage future potential for microinsurance if there is a significant error in prototype design.

MFIs often want to skip the prototyping phase because they are eager to get their product to market. But no product is perfect, and testing it provides valuable information that can save the institution significant time, money and damage to reputation.

Prototyping also provides initial education about microinsurance. People can usually see gaps in their current risk-management strategies, but they typically do not see microinsurance as an effective solution to those gaps. The first step in overcoming this disconnect is the design of the prototype.

By presenting the prototype to potential clients:

- The institution has a chance to test the product prototype in a way that confirms (or refutes) the conclusions drawn from the initial research.
- More thorough information can be obtained about the acceptable premium levels and willingness to pay. Too often, low-income people are asked how much they would pay for insurance without having a product to assess. This phase of product development allows people to see a basic product design and then make their own informed assessment of its value to them.
- Details can be gathered that assist the product development team in understanding how reluctant markets may be converted to interested markets.

Developing the prototype

Developing the prototype involves reviewing, analysing and comparing all information gathered previously about the market. The development team should now have a good understanding of:

- Who else is in the market and what they offer;
- What products are in the market and their features;
- What the available delivery channels are;
- Who the potential partners are.

Based on this information, the team can compare and contrast the available products and begin to make decisions about what features the prototype product should have. Importantly, the goal is not simply to imagine the best of all possible products, but rather to describe a product that meets the needs of the market and is supportable by the institution. Appendix 3 is a useful tool in this analysis and design process.

Once the team has decided on the prototype, it should summarize its key points in a product description, including coverage levels, terms, distribution information and so on. This description will be used in the testing phase.

Testing and feedback

The test team takes the product description to a small segment of the target market. Potential customers are given the description and then interviewed about their reaction to it. A series of questions are then asked of each interviewee about the basic information provided. This process helps the institution understand the potential of this product, and it typically results in helpful suggestions on alterations to be made. Demographic and economic data are also obtained during the interview, and this information helps the institution develop strategies to reach more-reluctant segments of the market.

Matul, et al. (2006) provide an example in box 2 of the full quantitative questionnaire related to their study in Azerbaijan. As part of the interview, this information is explained to potential policyholders, and several quantitative questions are asked to obtain details of interest from the interviewee.

Box 2
Sample product prototype for quantitative testing

INT[ERVIEWER] READ: I would like to talk to you about life insurance. Choosing to buy life insurance is a way to protect members of one's family from financial shocks related to the death of any of those covered family members. For each of the family members you would like to insure, you pay a fixed fee every month or once a year. In the event of death befalling one of the family members, a claim is made and the family receives a cash benefit payment. I will read you a concept of a new life insurance product, and then I would like to ask for your opinion about it.

Coverage	This is the risk-management product that covers death of the policyholder during the fixed term (1, 3 or 5 years).
Limitation	The insurance applies to persons under 65 only.
Benefit	In case of death of the policyholder during the selected period, his/her family receives a fixed benefit of 2000 USD. If the policyholder does not die, the family receives nothing.
Claim processing	Within 2 weeks of notification of death, all the benefits are transferred in cash to the family.
Provider	The service is provided by one of the biggest Azerbaijani private insurance companies.
Proximity	The service is available in Baku and district capitals.
Price	2 USD per person per month.
Frequency of premium payment	Payments can be done on a monthly basis or up-front.

HAND OUT THE CONCEPT AND READ IT LOUDLY WITH RESPONDENT.

Source: Market for Microinsurance in Azerbaijan: Low-Income Households Needs and Market Development Projections, published by the Microfinance Centre (MFC) (Matul, et al. 2006).

Access frontier approach[5]

Note: The access frontier approach is a specialty step and may not be appropriate to all users.

'Access frontier' refers to the maximum amount of the population who will have access to the product – given the terms of the product and the market in question. By understanding the access frontier, the institution can better understand the effective market for a product, as well as potential ways in which a product can be modified to add value and reach a larger market.

By defining the access frontier, an organization can identify users and non-users of its product. Non-users are then divided into four categories:

- Group 1: those who are able to buy the product, but do not want it (even if it were free);
- Group 2: those who are able to buy the product now, but have not for various reasons, such as lack of knowledge about the product;
- Group 3: those who cannot buy the product now, but will have access in the near future (3-5 years) through changes in the product or the market;
- Group 4: those beyond the reach of the product, who would require policy solutions to gain access, even after the product or market has been modified.

By breaking down non-users into these categories, the MFI gains a better understanding of why non-users are not buying the product. It can potentially address these issues and thus expand the product's reach to include groups 2 and 3.

The access frontier approach is a five-step process:

1. **Define the market:** define in broad functional terms and specify the user 'unit';
2. **Determine current usage level and trends:** calculate the percentage of eligible customers currently using the product and product-use trends over recent years;
3. **Segment non-usage to assess the current access frontier and natural limit:** divide the non-users into the four categories outlined above to determine how much of the population is in the 2nd group, representing the current access frontier;

[5] This section is based on Porteous (2005), p. 9.

4. **Assess positions of the future access frontier in the medium term (3-5 years):** create mini-scenarios in which the key constraints are relaxed and the policy is held constant to create a different access frontier based on different assumptions about the product or market;
5. **Identify those in the 'supra-market' group:** specify the group of non-users beyond the reach of the product for reasons other than choice, which typically includes people with very low or no cash income and those outside the age limits of the product, for example the 4th group of non-users.

This analysis should reveal information that will assist the institution in refining the product or in addressing structural and policy issues. This research was done for a household-contents insurance product in South Africa: 16.9 million people do not have access to the product and almost half of them, 8.1 million, lack access because they have limited knowledge and understanding of the product. By simply increasing market education, the product could potentially reach 8.1 million more consumers, almost five times the number of households currently owning the product!

While the information needed for the access frontier approach will require some investment of time and money, the understanding gained of the market is extremely useful to private providers and policymakers. During design and testing of the product prototype, this approach offers a viable tool to help improve the efficiency of interventions. While it is easy to spend, and possibly waste, money trying to develop a market for microinsurance, this approach helps microinsurers understand where to focus investments more effectively.

5. Partnerships

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5. Partnerships

Microinsurance requires three main roles: a risk taker (the insurer), a delivery channel (the link to the market) and a policyholder.[6] These roles are typically played by three separate parties, although not always. In some cases, as in community-based health-care microinsurance, the same party takes on all three roles. In other cases, as with Delta Life in Bangladesh, the insurer takes on the role of risk taker and delivery channel by developing its own microinsurance agent staff.

As delivery channels, MFIs are often the ones that begin the process of product development. Indeed, it is not unusual to identify the need and develop the prototype before identifying the risk taker.

More than likely, it will be necessary to join with partners, and choosing the right partner(s) and working with them effectively and fairly is a challenge all its own.

The selection decision

Selecting an insurer to work with is one of the most important decisions in a microinsurance endeavour. A poorly selected insurer could lead to poor-quality products and poor service to clients, leading to further negative attitudes towards insurance in the markets. The MFI might also suffer from reputational risk. A good choice of insurer can lead to success in developing and offering products and services that clients value, which improves the MFI's reputation and ultimately its bottom line.

Appendix 4 offers a list of issues to consider when selecting an insurance partner.[7] For some questions, the answer may be uncertain, but the results should be positive overall if the MFI is to consider working with a particular partner. If results are not generally positive for any insurer, it may be best to work on educating insurers before beginning product development with them.

[6] Certainly there are several other parties related to microinsurance – intermediaries, reinsurers and others – but without these three, there is no microinsurance.

[7] Many other documents discuss a form of 'partner/agent' model in microinsurance. Because of legal and conceptual issues associated with the term 'agent', the author has chosen to use the term 'partnership' as a more balanced reference to these relationships between insurers and delivery channels. Additionally, when referring to 'partners' the author does not refer to a formal legal business structure, but rather to two or more organizations/businesses/institutions working towards a particular goal in which all have a stake.

The tender process

Why use tenders

MFIs should prepare an invitation for tenders outlining the product they want to offer. Using a tender method:

- Forces the MFI to be clear about product specifications;
- Reflects inputs from the potential clients (aiding in obtaining client-focused results);
- Opens the process to competition from insurers (both ensuring a partnership with an interested insurer and promoting competitive policy structure, cover, service and pricing);
- Offers a better chance of product success, as the institution that is closest to and should be representing the client – the MFI – is in control of the process.

When to seek out partners

It is best to look for partners after the product and market are understood. Selecting partners too early can lock the MFI into unfavourable or unworkable restrictions. That said, there are many reasons to choose a partner early. For example, if an MFI operates in an area with access to a specialized microinsurance broker, it may be preferable to work with it on the product development process from the start.

In choosing partners, MFIs should avoid partnerships that do not provide appropriate microinsurance products, conditions and service. However, it is important to remember that all parties need to benefit from the partnership, so some compromise may be necessary.

Designing the invitation

The invitation for tenders explains what the product is and what will be required of the partner. It gives potential partners the chance to review the request and to respond with their own terms. Once the MFI has received responses from several potential partners, it can select the two or three that are most appropriate for further review.

Potential partners should be given as much information as possible. Invitations should include a summary of market research and details of the product.

An invitation for tenders should include the following:

- A detailed introduction explaining why the delivery channel is interested;
- A summary of research results thus far;
- Expected components of the product;
- Other expectations of the insurer;

- A detailed template for the insurer's response;
- Information about how the tenders will be assessed;
- Deadlines and specific information about tender submission.

Appendix 5 includes a detailed checklist indicating the components of the invitation for tenders, followed by a sample invitation for tenders that may be used as a guide.

Sending the invitation

The invitation for tenders can be sent to insurers directly, or better, it can be presented at a stakeholders' meeting to which all insurers are invited. The research results are presented, and the invitation to tender is explained. Insurers then have an opportunity to ask questions. This significantly aids in their understanding of the interests of the MFI. Bidders should then have 10 days to two weeks to develop their responses. In an example of this process in Ghana, 12 insurers and one broker attended the meeting. Of those, eight submitted tenders, and of these, four of the submissions showed a serious interest as reflected in their responses.

Some insurers will have questions as they begin to consider the tender. They should be offered the opportunity to submit questions by e-mail, and the MFI's response to any question should be e-mailed to all who received the original invitation.

Assessing responses

The tenders will need to be assessed without bias. To mitigate bias, a spreadsheet should be prepared in advance and weightings allocated before the receipt of the tenders. It is helpful to inform insurers of the weightings so that they are able to focus on priority areas. This provides a transparent approach to insurer selection that focuses on weighted values of responses to key expectations.

The scores resulting from the review of tenders are not sufficient for final selection, but should help an institution identify the top two or three insurers with whom additional discussions should occur. These discussions should be used to clarify any ambiguities, address any significant misunderstandings, confirm the commitment of the insurer, and reaffirm the results of the qualitative assessment in appendix 4. From these discussions, a final selection can usually be made.

Beginning the partnership

Once the decision is made, the two parties should sign an appropriate legal document clarifying the relationship. A contract checklist and sample contract are provided in appendix 6. It is critical that the contract include a clarification of each party's role and specific responsibilities within the relationship. A grid of responsibilities should be attached to the contract; a sample grid is provided as appendix 7. Clarifying roles will prove extremely useful and should reduce potential misunderstandings.

Additionally, the agreement should outline the product development so that the process is understood and agreed. The timing of formal product assessment meetings should be defined. These meetings will vary in frequency throughout the life of the product, with more frequent meetings at the beginning and less frequent ones once things have settled and stabilized. With clearly defined roles, an agreed-upon process and appropriately frequent communication, opportunities for relationship problems can be minimized.

6. Product design

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6. Product design

A product will fail if it is not well designed. Effective agents may be able to generate high sales initially, but when it comes time for renewals, few will be interested. Microinsurance products differ from market to market, but a 'good microinsurance product' will generally have the S.U.A.V.E. attributes:

Simple – policies, conditions, marketing, procedures

Understood – risk pooling, procedures, coverage

Accessible – purchase, premium payments, claims

Valuable – match to needs, fair price and coverage

Efficient – for insurers, delivery channels, policyholders

- ***Simple*** – in every way – for policyholders, beneficiaries, delivery channels and insurers. For example, policies with pages of small print are useless to illiterate policyholders; and complex claims procedures only frustrate legitimate beneficiaries.
- ***Understood*** – by the policyholder, which may require educational programmes or basic insurance training provided honestly by an agent or through effective media.
- ***Accessible*** – reflecting the actual needs and abilities of the target market. For example, monthly premiums in a rural economy based on crop harvests will not lead to success; calculating premiums based on the risks faced by wealthy people is also likely to lead to problems.
- ***Valuable*** – to the policyholder by responding to market demand and reducing the overall risk faced by the policyholder's household at a fair price.
- ***Efficient*** – structured so that the delivery channel and insurer can transact with the policyholder (and each other) with little effort and high effectiveness.

S.U.A.V.E. products are a key to microinsurance success.[8] The following sections discuss specific considerations in product design.

[8] The S.U.A.V.E. mnemonic was coined and first used by the author at the Munich Re Foundation/Microinsurance Network Annual Conference in Cartagena, Colombia, in 2008.

Coverage: benefits

Low-income people have an especially large array of needs, but addressing all of them is unlikely to result in a product they can afford (or that insurers or delivery channels can provide). For example, health insurance is of limited value if there are no accessible health centres. Solutions other than insurance may better address the underlying problem, such as: (i) facilitating the improvement of health-care centres in the market area as donors and governments do, sometimes using loans from MFIs to existing facilities and then imposing standards (as with the Delivery of Improved Services for Health (DISH) Project of USAID); (ii) covering transportation to a quality facility; or even (iii) creating your own primary care facility to serve your clients, as with the Bangladesh Rural Advancement Committee (BRAC) and Grameen Kalyan.

When developing a product, one must always consider the capacity of each player (risk taker, delivery channel and client). If the institution cannot offer the product viably (in the long term), it makes little sense for them to do so. This does not mean that a particular insurance product cannot be offered, but that other mechanisms might need to be employed. In health care, it could be that the only providers are government facilities, where possibly low-income people must pay for non-receipted services within a 'free' health-care system. Realistically, it is not possible for an insurer to carry on a traditional indemnity relationship with the hospital, nor is it possible to reimburse receipts from policyholder patients (since there are no receipts). To address these issues and still offer a product for health, Constanta Foundation and Aldagi Insurance in Georgia decided that they would offer a 'hospital cash' policy that simply paid people a set amount for each day they were hospitalized. In this way, all parties benefit from an efficient policy that is easier than the more-traditional methods.

Coverage: controls

Products must be designed with strong consideration for controlling common insurance risks, including:

- **Adverse selection:** people with a higher-than-average risk obtain coverage at the average premium rate;
- **Moral hazard:** there is a movement towards riskier behaviour because one is insured;
- **Fraud:** a policyholder, service provider, agent or some related party intentionally perverts the truth to obtain unjustified gains.

These risks should be controlled in sensible ways that are consistent with the market and relative costs. For example, it may be worth it to spend a thousand dollars fighting fraud for million-dollar life insurance policies, but not for a thousand-dollar policy. Adapting controls to the low-income market can be a significant challenge, exacerbated by the fact that claims must be paid quickly in order to be beneficial to low-income policyholders. For the beneficiary of a wealthy policyholder, waiting months for a US$1 million settlement may not cause an issue. But a low-income person whose husband has just died needs the money immediately. This requires designing simple products with few if any exclusions and requiring little paperwork.

For example, a life policy that covers death by any cause only needs proof that the person died. A more complicated policy (e.g. one with exclusions or additional payments based on type of death) will become time-consuming and costly to the policyholder.

Thus good microinsurance products are typically very simple, with few if any exclusions, and with controls adapted to the market.

Coverage: compulsory versus voluntary

Compulsory coverage can generate large volumes (especially with basic low-premium products). It tends to be cheaper and reduce adverse selection, but it is also limiting. For example, one can hardly force a working-capital borrower to insure his children's health. In addition, policyholders tend to be ill-informed on compulsory product details, and they may either not take advantage of benefits, or assume they are covered for something when this is not the case.

Voluntary coverage, on the other hand, takes much longer to generate volume. It requires significant sales effort, and it tends to be more expensive. And while those who understand the product are usually prepared to use it, this means that it is difficult to avoid adverse selection.

Coverage: group versus individual

Group products greatly facilitate the efficiency of sales since an insurer often has simply a single policy with the delivery channel, and there is a very limited administrative burden in managing such a policy.

For individual policies, this administrative burden, plus the increased risk these policies represent, leads to significantly higher premiums. A study by the MicroInsurance Centre showed that individual insurance costs, on average, at least three times that of similar group policies (Roth, McCord and Liber 2007).

A hybrid model is one in which there are smaller groups within a larger group, and either all members of a small group purchase or none can. This maintains many of the benefits of a group policy while still allowing for individual decision-making.

Coverage: terms

Insurance commonly covers a one-year period. The term of a policy should reflect the activity schedule of the delivery channel as well as the seasonality of cash flow of the potential policyholders. Most microcredit-linked insurance, for example, is linked to the term of the loan (with some buffer period to cover the one-to-two weeks between loans). If a client is borrowing to pay the premium, the full payment should be collected well before the term of coverage ends.

Policy document

Low-income people may be illiterate and/or lack basic understanding of how insurance works, and they often have little capacity to analyse a complex product. For these reasons, the policy document must be simple and easy to understand. Ideally, a policy document would fit on the front and back of a business card, with the front explaining the coverage and the back explaining how to make a claim. The Munich Re/Asuransi Wahana Tata policy (figure 5) is a good example of a simple policy for a simple product.

Figure 5: Policy document

Premiums

Premiums must be calculated with a clear consideration of the risk, and they must cover, even from the start, the cost of expected claims (the 'risk premium'). As the number of policyholders expands, the full administrative costs must be covered. A portion of the premiums should be designated to the MFIs, who should understand their own cost structure in selling microinsurance so they can make informed decisions about the commission levels they wish to receive. Delivery channel commissions should always be related to the cost of delivering and servicing the microinsurance, plus a modestly fair amount of profit. Commissions are a significant component of microinsurance premiums, but MFIs should still remember their role in representing their clients' needs in the product development process. One of the key responsibilities of all parties in microinsurance is to minimize administrative costs so that the client gets a product they value. This will lead to benefits for the insurer and the MFI.

Insurers ultimately set the premium, as they are responsible for the risk. Because the cost of the risk is typically incalculable owing to limited or non-existent data, the premium often includes a significant loading or buffer to minimize the potential for overall loss. Thus it is critical that MFIs track product experience and work with their insurers to leverage the knowledge gained over time to manage for a win/win/win outcome for all parties.

Additionally, premiums must be collected simply to limit the need for repeated purchase decisions by policyholders. Asking for a frequent premium payment will quickly lead to excuses for not paying the premium. Collection should be easy and should reflect the cash flow of the policyholder. Commonly, MFIs will collect premiums with the periodic loan principal and interest payments, or will sweep the premiums from savings accounts.

Claims

The full process for settling claims must be efficient and easy for beneficiaries to manage – while still maintaining appropriate controls. Claims represent the point at which intangible insurance becomes tangible to policyholders. With life-linked policies, a number of MFIs, including the Association for Social Advancement (ASA), for example, have made arrangements with insurers so that the MFI can pay claims directly given legitimate documentation of death. At least one MFI pays a portion of the sum insured immediately upon learning of the death (so that the family can address immediate issues) and the remainder upon receiving proper documentation. The MFI then submits the claim to the insurer, who should pay automatically on receipt of the pre-agreed documents. More and more MFIs manage the claims for simple products in this manner, as it dramatically reduces the claims duration. In many markets, the speed at which claims are paid is becoming a key competitive advantage for microinsurers.

For health insurance, the MFI should not be involved in the claims process, as this can represent a significant administrative burden and result in major control issues.

Simplicity

The key to microinsurance product design is simplicity with appropriate controls. It is easier for people to understand easy products (simple terms, limited or no exclusions, easy vernacular, uncomplicated processes, straightforward access and clear forms). It is easier to control a simple product. It is easier to expand a simple product. At every step, an MFI should assess the product for simplicity and constantly look for ways to improve.

7. Pilot testing and review


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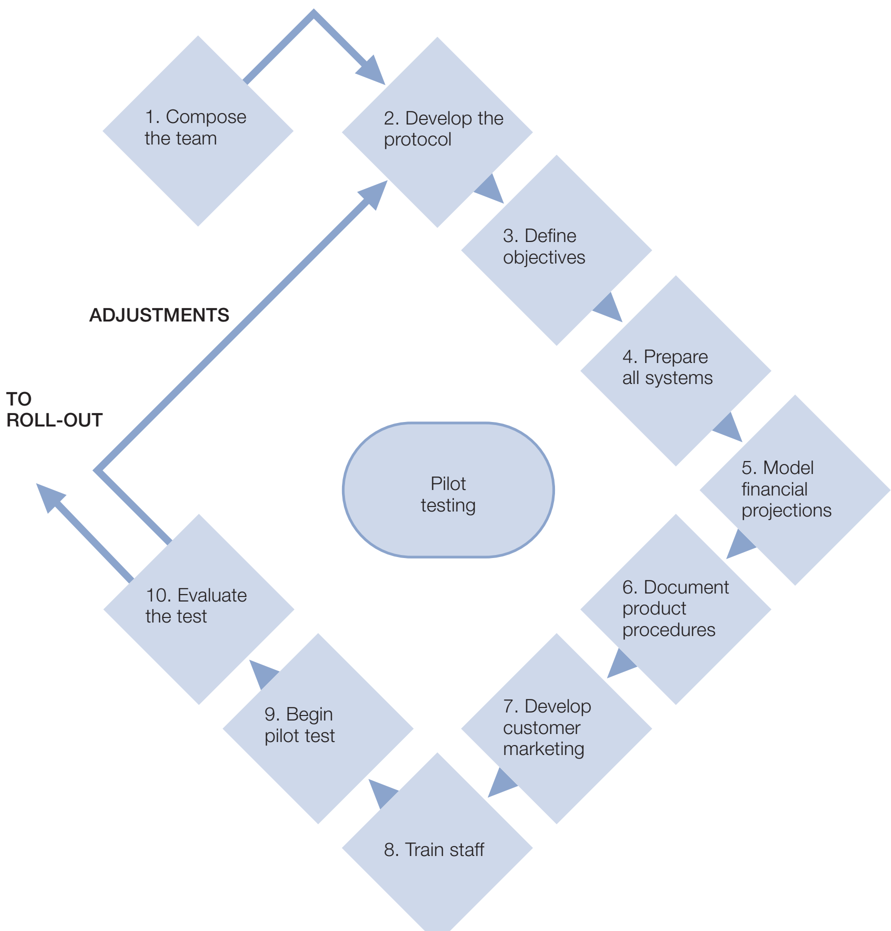
7. Pilot testing and review

To ensure that a product is ready for the full market, and to limit potentially costly errors, it is important to do a pilot test.

Figure 6: Pilot testing



Areas of testing

Pilot projects test three critical areas: products, people and systems.

Product

The pilot test verifies that the market really does want the **product** and that it is being offered in a way that gives people access. Small adjustments to the product are typically easier during a pilot test and much more difficult once a final product is rolled out (box 3).

Box 3
Livestock insurance in Albania

Prior to the start of the insurance project, Partneri Shqiptar ne Mikrokredi (PSHM), a member of the Opportunity International Network, was working with an agricultural training organization linked with Land O'Lakes to provide loans to rural communities in Albania for the purchase of livestock.

A decision was made to offer these clients insurance to protect them from the possibility of livestock dying while the loan was outstanding. During the market research conducted by PSHM, this product received positive feedback from potential clients and a product was designed. However, when it was actually offered to clients, the product proved to be extremely unpopular and eventually the product was recalled.

Early in 2003, focus groups were conducted with rural clients who indicated that they were in favour of the product, its terms and pricing, but that they were unable to pay the premiums in advance as required by the insurance company. Subsequent negotiations have demonstrated that Albanian insurance companies are now willing to consider providing insurance with premiums collectable on a monthly basis, and PSHM is considering the design and launch of a new 'package policy'.

Had this product been pilot tested, these issues may have been discovered earlier and considerable cost prevented.

Source: Leftley (2002).

People

The second target of pilot testing is the **people** who implement the product, primarily those who market and sell it. No matter the potential value of a product, if the people selling it are not effective, a product will go nowhere. A primary reason for using delivery channels that work with the low-income market is that the market typically knows and trusts the intermediary and its staff. The pilot test should ensure that this anticipated benefit is actually leveraged.

The pilot test often detects problems related to staff perception of the benefit of the product and incentive issues. Working on the development of a health microinsurance product, one MFI had production and quality quotas for all products except microinsurance, and it provided no incentives for microinsurance product sales. Staff members were well-trained and understood the value of the product, but the incentive structure dissuaded them from selling it. Identifying this problem in the pilot-test phase led to implementing alternative sales models (the MFI did not want to change its incentive structures).

Box 4
Microinsurance incentives

Incentives in microinsurance are not limited to cash commissions. Basing a programme on commissions for microinsurance product sales can lead to problems. For example, a credit officer selling a voluntary life product with a biannual premium of US$3 and a 20 per cent commission split evenly between her and the MFI may not find the commission to be much of an incentive. If the credit officer has a total capacity of 400 clients, and through the credit officer's hard work 65 per cent of the clients purchase microinsurance for covering the duration of their six-month loan, the commission only represents about a 4.3 per cent increase in her salary.

Clients purchasing: 400 x 65% = 260

Total premium paid: US$3 x 2 x 260 = US$1,560

Individual annual commission: 10% x US$1,560 = US$156

Individual salary: US$300 per month x 12 = US$3,600

Commission increase in salary: 4.3%

Some MFIs, such as Fundación Mundial de la Mujer Bucaramanga (FMMB) in Colombia, make sure that their credit officers understand the other benefits that accrue to them because of insurance, including:

- Fewer loan payment lapses with clients that have insurance;
- More-stable clients more likely to borrow more money (thus greater commissions on the loan side);
- Happier clients, who are more likely to be retained in a competitive market.

Effective motivation for microinsurance sales requires a combination of financial and non-financial incentives.

Some staff problems have little to do with the insurance product, but may still be revealed in a pilot. During the pilot test of one product, the author came to recognize that the credit staff, though reasonably effective at finding borrowers, were simply not salespeople. This recognition led to a crash course in sales and marketing, and the result was increased microinsurance sales and increased credit sales. Interventions to improve microinsurance implantation can also have a positive impact in other areas of the business.

Systems

Whether electronic or manual, microinsurance tends to be systems-intensive. When computerized systems have problems, these can cause a significant loss of time and effort and can create problems with clients.

Systems and procedures often show deficiencies during a pilot test. Observing the operation of a product and working through the different procedures can identify issues and problems. It is always better that these issues are addressed in front of a small group of clients than in front of all clients.

Implementation

The pilot test requires significant preparation even before the first policy is sold. This is one reason why it is important to test the prototype with clients. The real investment of time and resources begins with the pilot.

There are 10 general steps to the pilot testing of a microinsurance product. To have an effective test, it is important that all steps are followed.[9]

1. Composing the pilot-test team
2. Developing the testing protocol
3. Defining the objectives
4. Preparing all systems
5. Modelling financial projections
6. Documenting the product procedures
7. Developing customer marketing materials
8. Training the relevant staff
9. Beginning the product test
10. Evaluating the test

[9] The 10 steps and the related discussion are drawn from McCord, Wright and Cracknell (2003).

Composing the pilot-test team

The **pilot-test team** should have participation from a variety of members from both the insurer and the delivery channel. The team's role is to guide the pilot test through the stages of preparation and implementation. In addition to the product champions, membership should include representatives from the delivery channel (including operations, marketing, management information system [MIS] and finance) and the insurer (including underwriting, claims, marketing and finance). If applicable, a training representative from each group should also be included. It is possible that one person may represent more than one area. Though these people will be on the team, each member will not be required at each stage.

Team members should meet regularly to report on product development activities and progress in their areas – and to receive information to bring back to their areas so that key staff are regularly informed of project progress.

Developing the testing protocol

The testing protocol defines the key questions of the test, which may include:

- Anticipated number of customers who will be included in the test;
- Location of the test;
- Duration of the test (beginning and completion dates);
- Reporting dates;
- What data should be analysed and when;
- Specific boundaries that may call for a pause or cancellation of the test.

Defining the objectives

Defining the objectives of the pilot involves determining what counts as success. If this step is skipped (as happens in many institutions), the pilot test can become a perfunctory exercise with limited value. Ideally, there should be fewer than 10 objectives and these should reflect the key areas of testing for the product, such as:

- Product and market acceptance
- Staff effectiveness
- Systems efficiency

Quantitative measures within each of these areas determine whether to move forward with, refine or terminate the product. Table 2 provides an example.

Table 2. Pilot-test objectives (example using a voluntary life product)

Item	Objective	Objective target (end of test)	Type of objective (target area)	Explanation
1	Net policyholders	1,000	Product (growth)	Active policyholders at end of the pilot test
2	Renewal ratio	80%	Product (growth)	People that renew are generally showing satisfaction with the product
3	Coverage ratio	10%	Product (growth)	Growth is often slow to start, but there should be a target within the market that the test should achieve
4	Marketing effectiveness	Non-person-to-person marketing activities responsible for 50% of new policyholders	Product (marketing)	Marketing efforts must be particularly maximized in the pilot test so that in roll-out only the most effective means are employed
5	Claims handling	Average claim paid within 10 days of death	Systems	Claims are critical to policyholders/ Claims systems and processes have several phases and each must work efficiently for product success
6	Premium payment efficiency	100% arrive to insurer by or on contract stipulated date	Systems	Systems and procedures for collecting, logging and paying claims to the insurer are a key systems activity and must be efficient
7	Average transaction time for initial sale	Less than 5 minutes per person	People	The ability of staff to effectively and efficiently educate the client and close the transaction (either way) is critical to their continued efforts
8	Achievement of sales quota	75%	People	This directly relates to item 7 above in terms of how many deals were closed with a sale
9	Budget management	Remain at or below budget	People (management)	Low cost is important to microinsurance success

Having and using specific objectives will help the team justify going ahead with the product. Without these objectives, there would be no clear understanding of what success means.

Preparing all systems

Many institutions already possess appropriate software and internal systems for microinsurance. For those that do not, off-the-shelf solutions are available; it is not necessary to develop new ones. Preparing systems means making sure that the internal systems are ready to begin taking on the additional workload and that software systems are configured appropriately for the (typically limited) information requirements of microinsurance. Usually this set-up involves making sure that the systems of the insurer and delivery channel can 'talk to one another' when exchanging data and that this information transfer is appropriately secured.

Modelling financial projections

Financial modelling helps the MFI:

- Clearly think through the inputs and outputs expected of the product;
- Assess the likely results of implementation in expected, worse and better-than-expected cases;
- Use the data to make a decision on whether or not to move forward, or to identify areas that must be addressed before implementation in order to yield better potential results;
- Use the results to justify decisions to senior management and the board;
- Use the data and format to track progress against projections throughout the test.

If microinsurance is to be a winning proposition for all parties, the developers must understand the financial impact of offering the microinsurance product *before* moving forward with the test.

The projections are rather sensitive to fluctuations in key variables. Some of these include: rate of growth, level of operational costs, commission rate, voluntary or mandatory products, group or individual sales, marketing approach, level of technology applied and roles taken by different parties. Commonly, microinsurers project growth at a rate that is multiple times faster than reality. It is critical that microinsurers have a clear justification for growth projections and that they take a conservative approach to their projections.

Additionally, operational costs should be based on a review of procedures for implementing the microinsurance product. All efforts should be made to minimize these processes, which in turn should limit costs. Assistance with process mapping is available through the publication *Process mapping for microinsurance operations: A toolkit for understanding and improving business processes and client value* (Steinmann 2012).

Understanding costs as a component of financial projections is especially important for MFIs. Commonly, MFIs will request commission rates without understanding their cost structure and thus have no understanding of the relevance of the rate they seek. Are their costs covered by this rate? Could they cover costs and gain some profit and still reduce their commission rate? These questions cannot be answered without costing and projecting the microinsurance activity.

The modelling process will require significant assumptions. These should be drawn from the objectives and testing protocol, as well as from the cost structures of the institutions. This process will help refine what inputs can be provided to the product from a financial perspective. For this reason, it is important that all assumptions are fully justified and objective, not stretched to make the product work. This step is a key decision-making step, after which an institution may need to recognize that product success is not likely, given the expected costs of delivery compared with the market capacity. It is better to make this determination at this point, rather than to move on, spend significantly more money and then find that the product is not financially viable.

Documenting product procedures

Microinsurance requires accuracy in processes, and pilot testing in particular requires a consistent approach in order to understand what works and what does not. Procedures should be well documented so that front- and back-office staff clearly understand what is expected of them. Procedures will ultimately be adjusted based on the lessons of the pilot, and finalized procedures can be added to the institution's procedural manual.

Process documentation should be provided to all parties that have any interaction with the product because documentation provides:

- A basis for training staff;
- A guideline for staff actions in microinsurance;
- An opportunity to clearly think through the issues of delivery during the preparation of the guidelines; and
- A basis for the process analysis that must be conducted in order to identify potential areas for further efficiencies and reduced costs.

Without clear, printed procedures, none of these benefits can effectively be achieved. To facilitate this process, the MicroInsurance Centre has published a process mapping manual for microinsurance that is intended to help microinsurance partners closely analyse projected processes in order to improve efficiencies (Steinmann 2012).

Developing customer marketing materials

Insurers typically take the lead in developing marketing campaigns, but because they do not understand the microinsurance market, these have tended to have little impact. Marketing campaigns are more likely to be successful when the insurer's marketing staff work with the MFI's marketing staff, and *both* test the marketing concepts and designs with focus groups of potential policyholders. Such focus-group sessions have resulted in dramatic alterations to the designs and strategies of microinsurance products. MFIs should push for such test sessions. Anything that clients must understand should be tested using clients.

It is important that marketing for the pilot is limited to the pilot test area. Advertising a new microinsurance product to potential clients who cannot access the product can damage the institution's reputation. Additionally, tracking the effectiveness of marketing activities is also critical. Marketing can quickly become costly. Thus the marketing staff should closely monitor the results of each marketing effort during the test, so that when the product is rolled out, there will be some confidence that the marketing efforts will provide a return on investment.

Training relevant staff

As with any new product, training the relevant staff is critical to product success. This is especially true in microinsurance, because MFI staff typically do not understand insurance. Training is helpful on different levels. Field staff and those who will sell or educate people about the product should be trained in the following areas:

- Sales (in general);
- Basic insurance principles;
- Insurance sales (including ethics);
- Details of the specific insurance product and its marketing materials;
- Specific procedures for selling and managing the microinsurance product (including premium collection and claims, as well as any electronic or manual procedures); and
- Mechanics of any incentive system or quotas related to the microinsurance product.

Commonly, insurers will provide inputs to staff training and sometimes will conduct the training jointly with MFI trainers.

Other staff, management and sometimes even board members need training in the basics of the product, as well as in any particular back-office procedures that will be altered or instituted due to the new product. (These will have been identified and mapped out while developing the process documentation.) It is also beneficial to conduct an abbreviated training for these staff and management in basic microinsurance product sales – and to keep them informed of marketing campaigns so the whole company is aware of initiatives and can provide information about products to the public.

Beginning product testing

Product testing should be done based on the protocol, and it should be implemented gradually to allow an opportunity to clearly determine the success of the pilot components: product, people and systems. The pilot should not be started until the preparations are complete. In light of the scepticism regarding insurance within the low-income market, it is critical that processes work as marketed. Failures and 'glitches' need to be minimized and kept within a controlled geography in order to avoid public mistakes.

Evaluating the test

Evaluation is done by reviewing points from both the protocol and the projections. These planning and monitoring tools must thus be presented with monthly targets, not just end-of-pilot objectives. The protocol, among other things, will indicate when serious intervention or even pilot termination might be appropriate. Evaluation is commonly more frequent at the start of the project (e.g. weekly between all key actors). As the pilot stabilizes, the evaluation period can be extended (e.g. once a month).

At the end of the pilot period, the institution should be confident that: (i) staff are effectively managing the product; (ii) systems are working as planned without any significant errors; and (iii) the market response to the product is acceptable. If these are true, the project team should recommend to the board and the insurer that the product be rolled out. The recommendation should be sent in writing and should include documentation from the pilot.

8. Roll-out

8. Roll-out

The roll-out of a microinsurance product is like an expanded version of the pilot test and incorporates lessons learned from the pilot. By the time of the roll-out, most inputs should have already been developed, tested and adjusted where necessary. As such, the significant difference between pilot and roll-out is scale. But scaling up presents its own challenges, especially in the areas of training, systems and marketing.

Training

Training for scale will require a significant effort because all front-line staff will require full microinsurance training. Where testing in a couple of branches might have required one training session for a handful of people, now hundreds, even thousands of people may require training. Effective organizations might use one or two of the front-line staff from the initial pilot-testing group as trainers. Their experience has proven over and over again to be tremendously helpful in training peers based on their own experience with clients. Regional training may be appropriate to limit costs. Sometimes the insurer's regional offices may have space for the training of MFI staff, with the added value that local staff of the insurer may participate in training, learning or both.

Systems

Systems roll-out often requires a significant investment unless the MFI is already completely computerized. If that is the case, the expansion is generally less difficult and simply requires additional training for those using the system. Computer capacity should also be considered (although this may have been completed in the initial assessment). Again, it may be easy to address the additional microinsurance activity of one or two test branches with maybe a few thousand policyholders, but when that activity reaches tens or hundreds of thousands, this may surpass the capacity of an MFI's systems, and MFI and insurer IT staff should be more aware at this point of what might be expected in terms of volume. The key is to ensure that an IT person is available to address any unexpected issues during roll-out.

Some insurers will require computerization for the input of basic policy information. Some institutions, such as some rural banks in Ghana, for example, actually purchased computers for their microinsurance activities. But even computerized institutions face the additional technological challenge of transferring the data back to the insurer. Clearly, microinsurance management is greatly facilitated by computerization and branch connectivity. When that is not present, the level of effort and costs are greater, but it is still possible to offer microinsurance. Some MFIs collect paper from their branches to be input at regional offices or headquarters along with loan documentation. This can also be reasonably efficient.

Marketing

Marketing during the pilot test is restricted to the pilot test area. Broader marketing may be significantly more expensive, especially when considering the different levels of market education that might be required: financial education provided in class-type sessions, broad market education through various appropriate media, and product promotion. For this reason, it is critical to have assessed the effectiveness of the various methods of marketing during the pilot test.

Sequencing

Given the issues that rolling out a product will generate, it is a good idea to limit the roll-out to a small number of branches at a time. It is simply too difficult to prepare all locations effectively at the same time.

Depending on the number and locations of operating units, an institution may take anywhere from a month to a year to effectively expand operations to all locations. Roll-out often occurs on a regional basis. In this way, training, marketing and systems set-up and testing can be done in a concentrated area by key roll-out staff.

In some cases, a product may not be rolled out to all institutions. Health care is a common example of limiting roll-out. For example, if there are no reasonable-quality health-care providers in an area, it makes little sense to offer outpatient coverage. Other products may be geographically limited for other reasons. For example, FMMB in Colombia has excluded certain market areas from its property coverage because of control issues inherent in these particular areas.

As with pilot testing, roll-out requires a roll-out team, a protocol, projections and frequent assessment. Additionally, it may be helpful to expand communications efforts to staff throughout the MFI so that all staff understand what is happening with the product, the pace of expansion, results of the pilot test, and the progress of subsequent roll-out activities. Keeping people informed will help the roll-out move more smoothly.

9. Continuous assessment

9. Continuous assessment

Any financial product should be continually assessed in terms of its quality for clients, delivery channels and insurers. If all parties are to be successful, it is important to continually monitor the progress of the product to ensure appropriate performance and to adapt as necessary.

Even products that have a successful pilot test can have significant issues that might only become visible over time. Too many institutions move on from a successful pilot test without realizing that there are performance issues with the product related to the policyholder, delivery channel and/or insurer. Too often, especially with products that are compulsory, the insurer and the delivery channels are very happy with the level of profits that flow to them. Yet, unfortunately, the policyholder is left with a product that does not respond to her needs, is overpriced or about which she can say nothing because access to a product that she wants (credit) is predicated on acceptance of an insurance product that she may not want.

Insurers and delivery channels should monitor their related microinsurance activity. The subgroup on Performance Monitoring of the Consultative Group to Assist the Poor's (CGAP) Working Group on Microinsurance has developed a guide *Performance indicators for microinsurance: A handbook for microinsurance practitioners* (Wipf and Garand 2010). The development and testing of indicators is discussed, as well as the attitude change of two large commercial insurers, at first reluctant to track indicators, who ended up significantly improving their products based on the information gained from indicator tracking.

The 10 key performance indicators promoted by the group are shown in table 3. The indicators highlighted in blue are appropriate for tracking by MFIs offering microinsurance.

Table 3. Key indicators and their basic formulas

Indicator	Basic formula
Net income ratio	Net income/earned premium
Incurred expense ratio	Incurred expenses/earned premiums
Incurred claims ratio	Incurred claims/earned premiums
Renewal ratio	Number of renewals/number of potential renewals
Promptness of claims settlement	Selecting only claims processed and paid during the period, apportion them in terms of the number of days it took to pay each claim
Claims rejection ratio	Number of claims rejected/all claims reported
Growth ratio	(Number of insured n – number of insured n-1) number of insured n-1
Coverage ratio	Number of insured n/target population n
Solvency ratio	Admitted assets/liabilities
Liquidity ratio	Available cash or cash equivalents/short-term payables (3 months)

While these indicators are not comprehensive, they represent the key information that any institution providing microinsurance should track. Risk-taking insurers should track all indicators, while MFIs should track the highlighted ones. Data and calculation requirements are provided in appendix 8.

Earlier we mentioned that initial premiums are most likely loaded in order to protect the insurer from misunderstanding the ambiguous risk represented by the low-income market. This initial loading makes monitoring all the more important to ensure that the excess premium is assessed as the real cost of risk is learned through the offering of the product. Once there is an understanding of the cost of risk based on experience, it may be possible to make adjustments that might include increasing benefits or reducing the premium. These kinds of adjustments might be appropriate after 18-24 months or when more than 25,000 person-years of experience are acquired. But the MFI must track the data in order to understand whether changes are appropriate.

In order to track these indicators, an institution must disaggregate its data between microinsurance products and conventional insurance products. This requires a clear definition of what a microinsurance product is. Although insurers should improve on their ability to identify and disaggregate specific microinsurance products within their insurance accounts, it is likely that microinsurance will be defined in the short term by the delivery channels and specific markets.

To facilitate the tracking of indicators, a joint initiative of Appui au Developpement Autonome (ADA) and the Belgian Raiffeisen Foundation (BRS) has resulted in the development of a Microinsurance Factsheet (ADA and BRS 2012) to help in calculating performance indicators.

Benchmarks for these indicators are being developed, though it is likely that this process will take some time, especially given the wide variety of contexts in which microinsurance is implemented. Some of the indicators are easy to recognize as needing to be as high as possible (such as renewal and coverage rates) or as low as possible (rejection rates and claims durations); others require deeper consideration (such as fairness to all concerned, the product and the market, the phase in the product lifecycle and institutional objectives).

Different indicators may prove more important to different parties. For policyholders, the key indicators may be the claims ratio (which is an indication of what the clients, as a group, are gaining from the premiums they pay) and the settlement time (which shows policyholders how well the insurer responds to its commitments). The MFI must monitor both these ratios to ensure value to its clients, as well as to represent its clients in negotiations with the insurers.

Glossary

Active approval/ passive approval As new markets emerge, the relevant supervisory authority will often provide direct acknowledgement of new types of financial transactions by passing laws or establishing regulations (active approval). At other times, the supervisory authority will not make any formal acknowledgement of new types of transactions, but neither will they try to prevent them (passive approval).

Adverse selection People with a higher-than-average risk obtain coverage at the average premium rate; or the tendency for the riskiest people to obtain insurance first, which can drive up rates and make insurance less appealing to those with lower risk.

Agent A person who sells insurance policies for a delivery channel. This person often works directly for the delivery channel, but may be an independent entity. Also known as 'salesperson'.

Client The party insured against loss of some kind through the purchase of an insurance policy. Also known as 'policyholder'. In this paper, 'client' typically refers to a low-income client.

Delivery channel The party that acts as the intermediary between the insurer and the client. Typically, the delivery channel has better or more direct access to the two parties and thus acts as the middleman. In this paper, the delivery channel is typically an MFI.

Fraud A policyholder, service provider, agent or some related party intentionally perverts the truth to obtain unjustified gains.

Insurer The party that is responsible for the risk (risk taker) and provides the capital should the risk materialize. In this paper, this insurer is typically a commercial bank or insurance company.

Moral hazard The tendency to engage in riskier behaviour because one is insured.

Protocol The outline, plan or set of requirements that product development is to follow and that a product is to be tested and measured against.

Qualitative research/ analysis Research or analysis involving information that is gathered through interviews, surveys and other mechanisms that convey views on the attributes or characteristics of a given subject. Qualitative data is sometimes thought to be less 'scientific' or more 'biased' because it typically cannot be easily measured or may rely on personal opinion. However, qualitative data is valuable because it can expose details that simple numeric data cannot. Sometimes known as 'soft data'.

Quantitative research/ analysis Research or analysis involving measurable data, typically indicated by specific amounts or ratings (i.e. numbers). Quantitative data is typically thought to be more 'scientific' or 'unbiased' because it has definitive limits that are determined by well-established (or predetermined) measurement tools. Sometimes known as 'hard data'.

Regulatory forbearance When the supervisory authority refrains from applying certain regulatory requirements, such as the requirement that anyone that sells insurance must be licensed by the insurance authority, usually to encourage the market.

Tender Formal proposal or offer – as for a partnership.

Further resources

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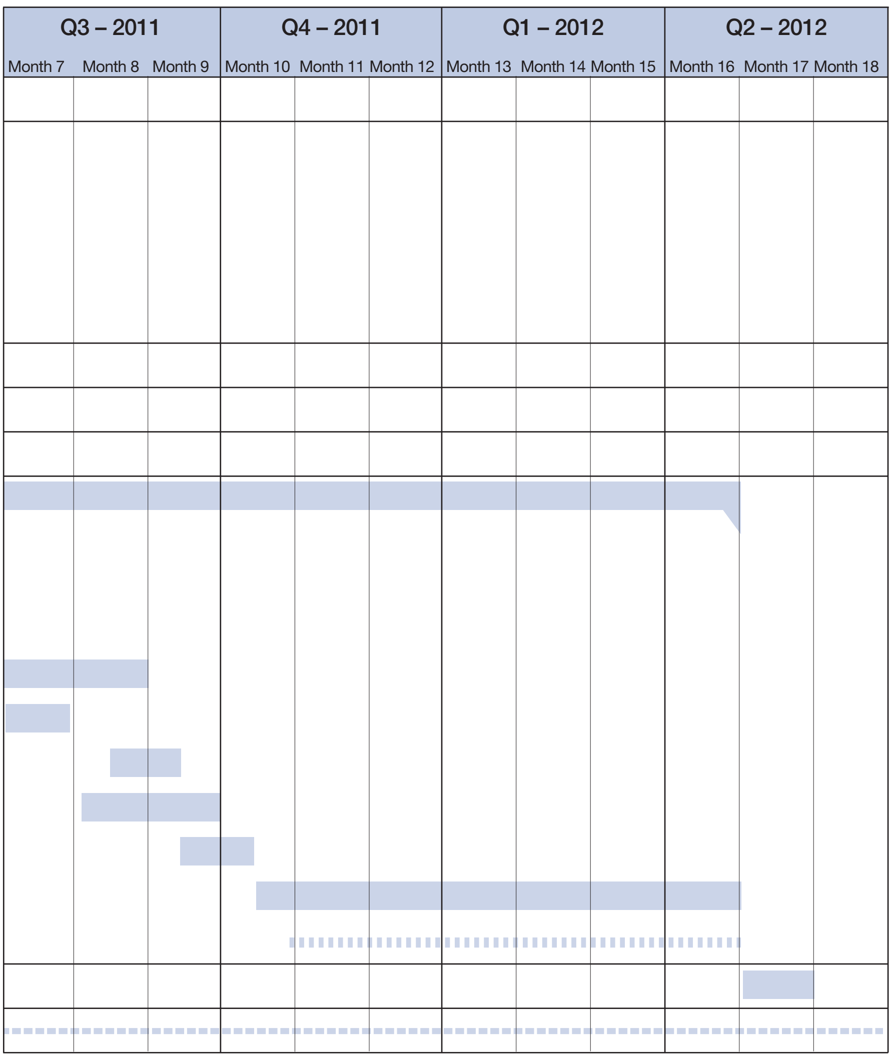
ANNEX 1

Sample product-development time line

Product development step		Q1 – 2011			Q2 – 2011		
		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
1	Institutional assessment						
2	Market research						
2.1	Demand research						
2.2	Supply research						
2.3	Delivery channels						
2.4	Regulations						
3	Prototype design and testing						
4	Partnership development						
5	Product design						
6	Pilot testing						
6.1	Compose team						
6.2	Develop protocol						
6.3	Define objectives						
6.4	Prepare systems						
6.5	Model financial projections						
6.6	Document product procedures						
6.7	Develop customer marketing						
6.8	Train staff						
6.9	Begin test						
6.10	Evaluate test						
7	Roll-out						
8	Continuous review						


Q3 – 2011
Month 7
Month 8
Month 9
Q4 – 2011
Month 10
Month 11
Month 12
Q1 – 2012
Month 13
Month 14
Month 15
Q2 – 2012
Month 16
Month 17
Month 18

ANNEX 2
Institutional assessment checklist

Institutional strategy

- Is microinsurance included in our strategic plan?
- Is there a reasonable budget to carry out microinsurance preparation and start-up activities?
- Does microinsurance fit into the vision and mission of the company?
- Is microinsurance in line with our corporate objectives?

Organizational culture

- Is the board responsive to management proposals and is it supportive of the microinsurance initiative?
- Is the organizational culture one of innovation?
- Do we have flexible staff that can adapt to the needs of microinsurance?
- Is there a good communication feedback loop within the company?
- Can management make decisions reasonably quickly?

Marketing

- Do we have the capacity to conduct and use market research?
- Do we have a marketing feedback mechanism and a means in place to measure marketing effectiveness?
- Is microinsurance compatible with our current marketing strategy?
- Does our marketing department have the capacity to add another product?

Financial viability

- Are we profitable or at least significantly trending towards profitability?
- Is our institution financially stable and able to take on microinsurance?
- Is our loan portfolio strong and likely to continue to be so?

Human resources

- Do we have a training department or other means to train our people?
- Can we develop a curriculum including microinsurance education and sales?
- Do our staff members have the requisite skills and knowledge?
- Do we have the excess capacity to expand?
- Do we have an effective incentive system that can accommodate microinsurance requirements?

Partnerships

- Is our structure one that can accommodate working closely with a partner?
- Have we worked well with partner companies before?
- Do we have established feedback loops, and process and product review procedures that have worked effectively?

Systems

- Can existing IT and/or manual systems handle a microinsurance product?
- Can our IT staff work with insurers to develop efficient data transfer software?
- Is outsourcing an option?
- Do we have the necessary connectivity?

ANNEX 3

Supply matrix

Product analysis matrix for life insurance

In the market research columns, complete as much as can reasonably be derived from the various aspects of the market research (demand, insurers, delivery channels and regulations). Delete any items that are irrelevant to your product and add any that are missing. The matrix is a living document and should be adjusted to fit your specific needs and market.

Once the matrix is reasonably complete, summarize key points that potential clients might be easily able to understand into a general product description in the Prototype column. Include significant demographic and attitude information that may be valuable to the product developer. Avoid simply copying the 'best' aspects of the other products; rather, make sure the prototype reflects the needs and limitations within your market.

	Prototype	Market research		
		MI product 1	MI product 2	MI product X
Product (design)				
Coverage (value & range)				
Natural death				
Accidental death				
Disability (temporary)				
Disability (permanent)				
Loan balance cover				
Other key issues:				
Restrictions				
Exclusions				
Tied to loan or other				
Medical test required				
Age limits				
Waiting period				
Customer history taken				
Risk pools (by age, profession, other? Class A, B, C used?)				
Insurance term				
Eligibility				
Mandatory or voluntary				

	Prototype	Market research		
		MI product 1	MI product 2	MI product X
Price				
Premium (per year)				
Premium per 1,000 (in currency of coverage)				
Paid in advance?				
Payment frequency				
Promotion				
Marketing/information Dissemination				
Advertising				
Place				
Location of sales				
Number of branches				
Convenience of branches?				
Sales and service location?				
Positioning				
Slogan/vision				
Corporate image				
Product image				
Physical evidence				
Applications (quality)				
Application (ease of use)				
Policy document (quality)				
Policy document (ease of understanding/simplicity)				
Sales space				
Claims application (ease)				
People				
Sold by regular staff				
Sold by staff with microinsurance (MI) skills				
Attitude				
Knowledge of MI product				
Ages (range)				
Process				
Premium payments				
Claims application (quality and availability)				
Claim documents required				
Form of benefit payment				
Time for benefit payment				
Benefits in cash or in kind				
Partnerships				
Others involved in offering product				

Source: Adapted from personal communication G.A.N. Wright, MicroSave.

ANNEX 4

Considerations in choosing an insurance company partner

All delivery channels should assess potential insurance company partners based on at least the following sets of key questions. Answers should be positive to improve the potential for microinsurance success. Obtaining answers will involve a number of different strategies that may include: direct questioning, review of annual reports and other documents, discussions with other partners of the insurer and others who know the company, 'mystery shopping' research, collection of brochures and others.

Interest
- Do they have a proven interest in microinsurance?
- Is there a senior management microinsurance champion?
- Is the board supportive of the insurer's venture into microinsurance?

Capacity
- Do they have excess capacity to develop and manage microinsurance?
- Do they use efficient IT systems?
- Do they have effective communications with other partners?
- Will they facilitate, through the use of IT solutions, ease of transactions between the delivery channel and the insurer?

Physical locations
- Are they accessible where you need them?
- Do they have the means to mitigate issues of distance (such as electronic transfer of claims documents)?

Are they compliant with regulations?
- Does their status fit your needs (registered for life, non-life or both ('composite insurance')?

Are they flexible?
- Will they accommodate clients' needs?
- Is there evidence of innovation?

What is their claims reputation?
- How quickly are claims paid?
- Are their claims procedures efficient and simple?
- Are they willing to be flexible with claims procedures for the low-income market, including possibly allowing the MFI to pay claims, given certain clear requirements?

Are they stable, sound and profitable?
- How long have they been in business?
- Do they have a sound reputation?

Is their pricing appropriate to the market?

What is their staff profile?
- Are they experienced in working with the low-income market?
- How well do they train their agents?
- Does their staff work well with other delivery partners?

ANNEX 5A
Invitation for tenders checklist

Information for tenderers

Brief statement of the purpose of the invitation

Information about the MFI

- Summary of the MFI's organizational history and objectives and its current activity
- Description of who constitutes the MFI's target population and why they are targeted
- Identification of geographic coverage of operations
- Summary of products and services offered by the MFI and why they are offered
- Brief statement of why the MFI is interested in offering microinsurance

Proposed relationship with the insurer

- Description of general division of roles
- Statement of how the final product characteristics will be determined
- Description of why the MFI is suited to play the role of delivery channel
- Identification of key assumptions made
- Identification, in table format, of indicative roles for each party (see appendix 7)

Market research

- Description of the types of market research conducted by the MFI
- Summary of findings of the demand-side research
- Summary of findings of the supply-side research
- Identification of any key legal or regulatory issues the MFI is aware of, and a statement that the insurer will be responsible for completing an in-depth legal review

Description of the product in table format

- Target market
- Coverage
- Coverage value
- Claims
- Exclusions or limitations
- Mode of payment
- Insurance term

- Future plans
- Other pertinent characteristics

Identification of the benefits of the proposed relationship to the insurer

Confidentiality provisions

Preparation, submission and evaluation of tenders

- Identification of a contact for questions, deadline for questions and how questions will be addressed
- Statement that the tender documents may not be altered and that tenders may not be made equivocal
- Deadline for submission of tenders and required format
- Description of the process for evaluating tenders

Tender form

Institutional capacity

- Contact information
- Key business indicators regarding staff, branches, policies sold, premiums, claims ratio and profitability
- Request to attach financial statements

Policy details

- Detailed description of the benefits of the proposed policy
- Premiums based on the number of policyholders
- Exclusions
- Limitations
- Underwriting requirements
- Other limitations or requirements

Structure of fees/commissions to be paid to the MFI

Agreement to comply with administrative requirements for premium and claims processing

Agreement to work with the MFI to develop appropriate information systems

Agreement to the other terms in the tender documents

ANNEX 5B
Sample invitation for tenders

The following document is intended to be used as a guide when drafting an invitation for tenders and related documents. Each situation is different, and certain sections may need to be changed, deleted or added due to the nature of the product, the country or other circumstances. Please consult your legal counsel regarding any regulatory or contractual issues that should be addressed in the tender documents.

Invitation for Tenders

for the

SELECTION OF AN INSURANCE COMPANY TO

UNDERWRITE AND OFFER A HEALTH MICROINSURANCE POLICY

(IN-PATIENT COVERAGE AT PRIVATE FACILITIES)

FOR CURRENT AND FUTURE CLIENTS OF

PROGRESSIVE MFI

Day Month 201_

The existence of this Invitation for Tenders and the information contained herein are subject to confidentiality obligations and should not be shared outside your organization. Please see section 1.7 for details.

Information for tenderers

Purpose

This Invitation for Tenders is being sent to preselected insurance companies operating in country X, with the objective of generating expressions of interest for the selection of a reliable, committed and financially sound partner insurer for the underwriting and marketing of a new health microinsurance product for the clients of Progressive MFI in country X.

This Invitation for Tenders does not constitute an offer and Progressive MFI does not undertake to accept any response to an offer.

Progressive MFI

Background and objectives

Progressive Microfinance Institution (PMFI) is a leading microfinance institution in country X, and is a pioneer in microfinance, both nationally and regionally.

PMFI is currently operating as a private not-for-profit company, registered under the Ministry of Finance of country X on 1 January 199_.

PMFI began operations as the Group Guaranteed Lending Program in 1994, with the dual purposes of testing the feasibility of group lending in country X and providing poor women with access to credit mechanisms. PMFI has since expanded and garnered significant name recognition and unique positioning in country X's microfinance market.

Since its inception and through 31 December 201_, PMFI has disbursed a total of over 250,000 loans, for a total amount exceeding US$30 million equivalent, to over 75,000 borrowers. As of 31 December 201_, PMFI had over 60,000 active loans for an outstanding portfolio of US$8.8 million equivalent.

The following are PMFI's primary objectives:

- To provide best-practice, sustainable financial services to low-income microentrepreneurs;
- To contribute to the empowerment of low-income women as they become income earners and decision-makers in their households and communities;
- To contribute to reducing unemployment by enhancing economic opportunities and providing support to entrepreneurial enterprises; and
- To improve the overall economic status of microentrepreneurs and their families through access to high-value[10] credit and savings services.

[10] In this document, 'high-value' products are those that have a high value to the low-income market in terms of responding well to their needs.

Target population

Since its inception, PMFI has focused on providing credit facilities to women, as they comprise a large portion of those underserved by the financial market. PMFI also contends that all entrepreneurs have the right to access credit to invest in their enterprises, even if they are unable to provide collateral; this has led PMFI to great diversity in outreach and in financial services. Additionally, PMFI offers specially structured savings products for clients. PMFI believes that low-income people, like everyone else, require a safe place to hold surplus funds, and that mediating these funds improves opportunities for the communities in which it works.

PMFI primarily targets women entrepreneurs who require financing to expand or improve their existing income-generating activities. Women have proved to be a reliable investment, as their foremost concern is the well-being of their children and families. Qualitative and quantitative evidence has consistently demonstrated that women tend to spend their earnings on improving their families' economic status, as well as on health care and children's education.

Also worth noting, in 200_ PMFI opened its financial services to men within current market areas and in 200_ began lending to individuals outside of groups.

PMFI is targeting the lower-income segments and is helping provide mechanisms to support the creation of economic opportunities. This is true for the immediate loan recipients running their own businesses, as well as for family members who become employed thereby, or even for external parties who are offered job opportunities therein. Eighty-nine per cent of PMFI's clients are women between the ages of 18 and 65 that have existing projects or enterprises, mostly in commercial businesses such as trading and retail sales, while others provide services such as food preparation or the manufacturing of small products. Details of business types can be seen in table 1.

Table 1. Ratio of business types of current clients as at 31 December 201_

Business type		Number	%
Services		9 847	16
Commercial		43 126	72
Manufacturing		5 875	10
Start-up, seasonal and delivery		1 294	2
	Total	**60 142**	**100**

Over three quarters of PMFI's clients are between the ages of 18 and 40. Details of age distribution are shown in table 2.

Table 2. Age distribution of current clients as at 31 December 201_

Age group		Number	%
18-30		17 562	29
31-40		28 149	47
41-50		10 776	18
51-60		3 486	6
61-70		169	0
	Total	**60 142**	**100**

Total number of active borrowers at the end of 31 December 201_ was 61,142, making it by far the microfinance institution with the largest population of clients in country X. PMFI projects 75,000 active borrowers at the end of 201_. Savers total 67,948, with total savings of over US$2 million. Some 80,000 savers are projected at 31 December 201_.

Table 3. Borrowing distribution of current clients as at 31 December 201_

Age group *US$ borrowed*		Number	%
50-99		4 756	8
100-149		36 664	61
150-199		15 691	26
200-299		2 895	5
300-500		136	0
	Total	**60 142**	**100**

The majority of PMFI clients borrow in the range of US$100-199 equivalent. This reflects both the lending criteria of PMFI and the needs of its clients.

Geographic coverage

PMFI has constantly striven to make its services available to the largest number of low-income people in various areas of country X, spanning its diverse regions. Headquartered in the capital, it operates out of branches located in each of the major regions, with offices in the following cities and towns: AAA, BBB, CCC, ….

Products and services

PMFI works towards achieving its objectives through a client-focused lending approach. To date, PMFI has concentrated on serving clients with businesses. It offers a variety of loan products to entrepreneurs interested in expanding or improving their existing home-based or independent enterprises in business sectors such as production, trade, crafts, services and such.

PMFI offers the following range of financial and non-financial services, each having its own distinct set of criteria and mechanisms under which entrepreneurs gradually assume a substantial role in participating in their household and country's economy, as well as contributing to the creation of employment opportunities. These services include:

- Group loans
  For small groups, with start-up loans of US$50-100
  For groups with existing businesses, with loans of US$100-500
  Seasonal loans of US$100-200;

- Individual loans
  For businesses older than one year, loans of US$200-500;

- Life insurance and protection programme for clients begun in 2010;

- Individual demand savings accounts; and

- Individual term savings accounts.

PMFI and microinsurance

As a result of extensive research on client demand, it has identified particular risk-management needs that it would like to help address. To help its clients manage these risks, PMFI intends to work with a regulated insurer to underwrite and offer products that respond to the specific needs it has identified.

Microinsurance arrangement

PMFI wishes to enter into a sustainable and profitable business relationship with a regulated insurance company to provide high-value microinsurance products to the clients of PMFI. In this relationship, the insurance company will manage the risk of a microinsurance product or products that PMFI identifies as appropriate for its clients. PMFI will use its market strength and relationship with its clients and their families to sell the microinsurance product(s).

According to this approach, PMFI will assist the selected insurance company in designing a new insurance product that will be affordable, accessible and appropriate to the needs of PMFI's clientele. Based on research already conducted by PMFI, the insurance company will make the final determination of the product coverage, limitations, eligibility requirements and pricing of the new product, as it will bear the financial risk. However, these must respond within reason to parameters acceptable to PMFI.

PMFI will serve as a distribution channel for the new insurance product(s). PMFI has the advantage of being close to its clients, both geographically and socially, and its infrastructure is designed for high-volume provision of relatively standardized, basic services, which enables it to serve large numbers of low-income clients efficiently. Its role will be to market the insurance product to its existing and future clientele, collect premiums and provide client-level servicing and assistance. PMFI will earn a fee from the sale of the insurance product(s) according to a fee structure mutually agreed with the insurer.

The key assumptions for ensuring the successful implementation of microinsurance products are:

- Low-income people will buy insurance if the products meet their needs and are fairly priced.
- Education of the market on the value of insurance will be a key component of the marketing efforts and PMFI will assist in this.
- Insurance companies are interested in and able to develop products that meet those needs.
- PMFI and the selected insurance company can work together to efficiently deliver insurance products.
- High-value insurance products for low-income people can be delivered at a price that is attractive to the consumers and is also commercially viable for the providers and delivery channels.

A more detailed allocation of activities and responsibilities in this relationship is presented in table 4. Note that this table is preliminary: there may be additional roles to add, activities may become moot, and some roles may change according to the particular characteristics of the selected insurer and the product as discussions move forward.

Table 4. Indicative roles of PMFI and the insurer

Relationship element	PMFI role	Insurer role
Market research and feedback	Conducted	
Prototype design	Part of this tender offer	
Premium setting (and risk analysis)	Range identified	Final price setting
Final product design		Based on market research by PMFI
Market education	Implement throughout active markets	Fund production of marketing tools
Product promotion	Inputs and final approval of promotional tools Product promotion by PMFI field staff	Fund development of tools
Staff training in insurance concepts and sales techniques	Provide appropriate training to staff at all levels	Provide basic assistance in curriculum development and presentations
Initial screening of clients	Conducted within current loan screening procedures according to mutually agreed criteria	Accept PMFI screening (no individual applications or separate insurance screening)
Information communication	Implement communications process	Develop simple, preferably electronic communications
Pilot testing	Conducted by PMFI	Review results and address insurer issues
Assisting clients with insurance preparations (e.g. beneficiary designation)	Assist clients where appropriate	
Premium collection	Collect and pay once per month to insurer	
Client monitoring	Monitor within current processes	
Claims application assistance	Assist clients in application process where appropriate	
Claims review and assessment	Provide basic review to ensure proper documentation	Review and assess documentation and conduct periodic client checks
Claims payment		Full responsibility
Reinsurance		Maintained by insurer
Internal audit	Will include audit procedures covering insurance risks within PMFI's audit procedures	Will audit as per insurer's normal processes
Third-party arrangements (such as selection of private health-care facilities)		Arranged by insurer with input from PMFI re: choices appropriate for client
Legal and regulatory obligations		Full responsibility for determining obligations

Market research findings

Between July and November 201_, three sets of research activities were conducted to understand microinsurance demand and supply within the markets in which PMFI operates. The focus of this research was on health-related products, as PMFI identified significant anecdotal evidence of client need for health-care financing. On the demand-side, qualitative research explored the risks clients and their families face and how they currently address them. This research helped PMFI identify gaps in clients' ability to manage risks, revealing opportunities for microinsurance. A significant volume of clients noted that they currently receive health care through some financing strategy, so PMFI conducted additional research to understand the number of clients with current access to such financing. Reproductive volumes of clients were also studied as a means of quantifying future risks. The supply-side research looked at institutions offering microinsurance or similar products, and a cursory review of regulatory issues was conducted.

The results of the three demand-side reports are available for more detailed review upon request. Some of the key research findings are highlighted below:

Qualitative research on risk and risk management

Overall conclusions:

- Most participants use public health-care facilities, as the majority are not insured and cannot afford private care.
- Level of satisfaction with public health care is low, due to overcrowded environments, absence of necessary medications and frequent lack of professionalism of medical staff.
- In cases of emergency and serious health issues, those who can afford it turn to private health care.
- In order to pay for health expenses (co-payments for tests, medicines, doctors' visits), people most often borrow, draw on their savings or ask for support from extended families.
- There was little distinction in responses from the different age groups, as most women participants were primarily talking about their families and communities and not their own health issues.
- The vast majority of participants expressed interest in family insurance coverage, but still had a generally negative view of health insurance.
- Respondents tended to confuse insurance with other financial products and did not understand fundamental concepts of insurance.

Quantitative research on client health-care financing from 1,031 completed questionnaires

Table 5. Health care sought, by branch

Health-care centre/branch	Area 1	Area 2	Area 3
		%	
Govt. health-care centre	25.7	23.6	24.5
Health-care centre	0.7	0.0	0.0
Pharmacy	3.7	3.7	6.4
Private doctor	18.4	27.3	24.5
Govt. hospital	26.5	24.2	25.5
Private hospital	15.4	10.6	18.1
Military hospital	3.7	1.9	0.0
Herbal healer	0.0	0.0	1.1
Did not mention	5.9	8.7	0.0

Table 6. Insurance coverage by branch

Branch	Area 1	Area 2	Area 3
		%	
Uninsured	77	66	87
Insured	23	34	13

Table 7. Insurance coverage of clients by type of insurance

Insurance type	% of insured
Government insurance card (social welfare)	84
Military insurance	10
Pension insurance	3
Government employee insurance	2
Private company insurance	1

This study clearly showed client dissatisfaction with current health-care availability. There is a strong demand for access to health care through private, higher-quality facilities.

Pregnancy volumes

In October 201_, a total of 1,064 quantitative research questionnaires were administered to clients in most branches. The key findings from the results are as follows:

- 75 per cent of the interviewed women were married. Of those, 24 per cent were pregnant at the time of the survey and 51 per cent intend to have more children in the future.
- The majority of women in the sample were between 17 and 37 years of age. Household size ranged from 3 to 6 members.
- 911 families were identified from the total sample. These families were headed by either a married couple, a divorced woman or a widowed woman. Of these families, 815 had children and 96 did not.
- The average number of children per family was 3.2 (1.7 male and 1.5 female).
- 170 of the 911 families (18.7 per cent) delivered during the previous 12 months.
- The average gap between children is 2.7 years.
- Women who are not currently married were excluded from the future child production expectancy tables due to social and religious beliefs that do not allow women to have children outside of marriage.

Table 8. Age distribution of clients in sample

Age brackets		Number	%
17-27		354	33
28-37		379	36
38-47		227	22
48-57		89	8
58-67		15	1
	Total	**1 064**	**100**

Table 9. Social status according to age groups

Age brackets	Number	Single	Married	Divorced	Widowed
			%		
17-27	352	30	67	3	0
28-37	378	10	80	8	2
38-47	228	3	81	8	8
48-57	91	0	73	4	23
58-67	15	0	64	0	36
Total	**1 064**	**14**	**75**	**6**	**5**

Table 10. Household members (children + parent(s) only)[a]

Number of HH members	Number of families	Percentage of total families (%)
1-2	102	11.2
3-6	564	62.0
7-10	235	25.8
11-15	9	0.9
16-20	1	0.1
Total	**911**	**100**

[a] Only married, divorced and widowed women were included in this table.

Supply-side research key results:

The supply-side study showed significant health insurance activity from government, with limited coverage and poor quality.

Legal review

The legal review indicated that insurers will need to review closely any potential licensing or other regulatory issues related to PMFI staff's role in selling the insurer's products. The insurer is also expected to conduct a thorough review of all legal issues related to the product and the relationship between PMFI and the insurer.

Product specifications

Based on market research findings among clients, PMFI wishes to receive tenders from insurance companies interested in providing a product that meets the following specifications:

Table 11. Product specifications

Type	Specialized MFI inpatient insurance coverage for clients
Target market	Individuals who are current and future clients of PMFI and their family members The product will be voluntary for all clients who choose to participate
Coverage	Inpatient health care in private facilities, including childbirth of any type
Coverage value	To cover private-facility inpatient care of PMFI clients and their family members
Claims	The insurer will agree to make all claims payments directly to the health-care facility that provides the care to the insured clients. PMFI will not be involved in any part of the claims process
Exclusions or limitations	All PMFI clients and their family members are automatically eligible and will choose to purchase the policy or not at each opportunity to take out a new microfinance loan No other exclusions or limitations
Mode of payment	Premiums will be collected by PMFI and remitted, less commission or fees as agreed, once each month by the 10th of the month after premiums have been collected Insurer will develop a system to electronically collect required insured data
Insurance term	The policy will be valid for the term of the PMFI loan to which the policy is linked, plus one week (to allow clients to renew their loans). Thus premiums must be fully paid prior to the normal conclusion of the loan
Future plans	After testing with loan clients, the microinsurance products will become available to savings clients

Insurer benefits

By participating with PMFI, the selected insurance company will benefit from:

- Access to over 60,000 current clients in 15 branches nationwide;
- Use of extensive market research information;
- An effective delivery channel;
- An opportunity to gain a competitive advantage over other companies.

Confidentiality

Tenderers shall not disclose that they have been invited to present a tender, nor discuss the tender they intend to make nor canvass for its acceptance. Insurer staff shall not discuss any part of their tender with any PMFI staff, except as prescribed in section 3, below.

Any tenderer found to violate these confidentiality provisions will be automatically rejected and not invited to submit tenders for future work, and PMFI may pursue any other appropriate legal remedy.

Preparation, submission and evaluation of tender

Questions

Any queries about this Invitation for Tenders shall be addressed in writing and electronically conveyed to PMFI's contract officer by 14 March 201_ at the latest. Any queries raised by one tenderer and considered pertinent to the tendering process will be responded to, without delay and in writing, electronically to all institutions invited to tender. This response will not identify the tenderer who submitted the question.

The PMFI contract officer is:

Name:
Title:
Progressive MFI
Main Office
Street Address:
P.O. Box:
Fax:
E-mail:
Website:

No alteration

No alteration or amendment shall be made to the original tender documents. Tenders may not be qualified or accompanied by statements that might be construed as rendering the tender equivocal; only unqualified tenders will be considered.

Submission of tender

All submissions must be made on the Tender Form provided in section 3.

Tenders in MS Word or PDF format must be submitted electronically and with scanned signatures by 17.00 hours (local time) on (date) at the latest. Late tenders will not be accepted. Tenders should be addressed to the contract officer identified above.

Include a clear notation on the subject line indicating: 'TENDER DOCUMENT – Microinsurance'.

Award criteria

Tenders will be printed and presented to the Tender Review Committee in PMFI's main office on 15 March 201_ at noon. The committee is composed of executives from PMFI and other relevant local and international experts.

The Tender Review Committee will analyse tenders both qualitatively (placing the most weight on A, B, C, D and E) and quantitatively (placing the most weight on F, G, H, I and J) and will make a recommendation to PMFI as to the selection of the insurance company.

Tenders will be assessed on the basis of the information provided in the Tender Form. Additionally, PMFI may request additional information or conduct follow-up meetings with selected tenderers to gain clarity or assess further the quality of their service provision. The tender will be awarded to the tenderer offering the best price-quality ratio.

PMFI will enter into negotiations with the insurance company that has been selected with the aim of signing a contract further clarifying the roles and responsibilities of each party and binding them in the implementation of the project and the finalized microinsurance product(s).

Tender Form

The following form is intended to guide tenderers in providing information that will be useful to PMFI in the selection of a partner. Insurers are welcome to provide additional information that they believe might clarify issues or improve the price/quality ratio of the product and service they intend to offer. Additional information pertinent to this tender offer may be provided on separate pages. Attachments to this Tender Form should not exceed 10 pages (exclusive of financial statements).

Institutional capacity

Name of company: ____________________
Company address: ____________________
Contact person: ____________________
Title: ____________________
Phone number: ____________________
E-mail address: ____________________
Company website: ____________________

Key business indicators (as at 31 December 201_, or the latest annual fiscal data available, as appropriate):

Information provided as of date:
No. of staff: __________ Total: ________ Headquarters: ________ Agents: ________
No. of branches: ____________________
Location of branches: ____________________
Number of policies sold: ____________________
Life premiums (LOCAL CURRENCY): ____________________
Non-life premiums (LOCAL CURRENCY): ____________________
Claims ratio (%): ____________________
Total assets (LOCAL CURRENCY): ____________________
Total liabilities (LOCAL CURRENCY): ____________________
Total capital (LOCAL CURRENCY): ____________________
Net income (LOCAL CURRENCY): ____________________

Tenderers must attach their financial statements for the years ending 201_ and 201_. Annual reports with data for operations exclusively in country X are preferable (as opposed to consolidated corporate annual reports from multinational entities).

Benefits

Describe the benefits of the proposed policy in detail.

Premiums

Based on the benefits described above, the premium for this product will be (in local currency per person per month); with variable premium levels depending on the number of active policyholders that PMFI delivers through this voluntary coverage:

If PMFI has a volume of active policyholders in this range:	The premium will be (in local currency per person per month):
Less than 10 000	
10 000 - 19 999	
20 000 - 30 000	
Above 30 000	

Exclusions, limitations and underwriting requirements

Exclusions:

Underwriting requirements:

Other limitations and/or requirements (if any):

Fees/commissions to PMFI

Recognizing that fees or commissions paid to an agent have an impact on the premium cost, and recognizing PMFI's role as an intermediary and distribution channel, it is expected that PMFI will receive payment relative to its inputs to the sale of microinsurance products. Please indicate the proposed fee structure below:

☐ ______________ (local currency) per covered client; OR

☐ ______________ (local currency) per ______________(local currency) premium collected/charged (circle one); OR

☐ ______________ per cent of premiums paid by PMFI clients

☐ ______________ as follows (please specify) (NOTE to MFI – This may include methods such as profit-sharing or mark-up)

Administrative requirements

Submission and payment of claims will be made between providers and the insurer.

The insurance company will commit itself to establish and comply with the following administrative procedures:

- Premium processing: PMFI shall collect premiums appropriately from its participating clients on a monthly basis. Premiums shall be remitted to the insurance company net of fees (as agreed). The insurance company shall acknowledge receipt of premiums upon receipt.
- Claims: The company shall agree that PMFI will have no role in any aspect of the payment of benefits for indemnity of reimbursement-type health coverage.

IT/MIS and other insurer inputs

The insurance company will commit itself to work in close collaboration with PMFI to develop/adapt an appropriate computerized management information system that will adequately and efficiently convey all microinsurance-related activity and data required by the insurer.

The insurance company agrees to assist PMFI in developing and maintaining a staff training programme related to understanding insurance and to the sale and servicing of the tendered products.

The insurer also agrees to work with PMFI to develop a marketing strategy and marketing tools to use in the sale of the microinsurance product. The insurer will fund the development of the agreed-on marketing materials.

Prior to final signing of a contract, it is expected that the insurer and PMFI will formally address any issues of potential legality arising from such an agreement.

Engagement

This Tender Form and the related Invitation for Tenders have been reviewed by the undersigned insurance company, have received all necessary internal approvals and are signed by the authorized signatory thereof.

The signatory testifies that s/he has read the present document and commits to the product and process details offered above.

The undersigned testifies that all information provided to PMFI in this Tender Form is true and accurate and reflects the engagement intended by the undersigned towards the proposed relationship with PMFI and the product to be developed thereunder.

Insurer: ______________________

By: ______________________

Name:

Title:

Date:

ANNEX 6A
Contract checklist

- Clearly reflects scope of the agreement and relationship between the parties
- Integration of the terms of the invitation for tenders, the tender form, and the roles and responsibilities (each of which is attached to the agreement)
- Warranties and undertakings by both parties to work in good faith to carry out the roles and responsibilities
- Representations and warranties by the MFI as to:
    - Valid formation and good standing
    - All necessary internal approvals to enter into the agreement
    - Accuracy of information in the invitation for tenders
    - That it has completed and will provide access to the market research, prototype design and premium setting
- Undertaking by the MFI to perform the roles and responsibilities
- Representations and warranties by the insurer as to:
    - Valid formation and good standing
    - All necessary licenses to provide the insurance product
    - All necessary internal approvals to enter into the agreement
    - Accuracy of information in the Tender Form
    - That it has completed and will provide access to the market research, prototype design and premium setting
- Undertaking by the insurer to perform the roles and responsibilities
- Certification by the insurer that the MFI may act as its agent to sell the product and agreement to indemnify the MFI for any liability in connection with its actions as agent
- Term of the agreement and provisions for early termination
- Confidentiality of information shared
- Prohibition on assignment of the agreement
- No other agreements between the parties related to the subject of this agreement
- Modification of the agreement only by written consent of both parties
- Governing law
- Resolution of disputes
- Form that notices must take and addresses for notices

ANNEX 6B
Sample contract

The following document is intended to be used as a guide when drafting a contract between a delivery channel and an insurer. Each situation is different, and certain sections may need to be changed, deleted or added due to the nature of the product, the country or other circumstances. Please consult your legal counsel when drafting the contract.

Agreement Regarding the Development and Sale of Microinsurance

Introduction

It is widely understood that, with the right financial mechanisms, low-income people can create economic opportunities for themselves and their families. However, even with access to these tools, many people are still only one setback away from severe poverty. The injury or death of a breadwinner, the illness of a child, the loss of inventory through theft or fire or any number of other calamities can quickly erase all the gains made over the years.

Microinsurance is a financial tool that can be used by low-income people to preserve the steps they have made out of poverty by allowing them to be prepared in the event disaster strikes.

In an effort to provide its clients with a more comprehensive financial plan for advancing out of poverty, Progressive Microfinance Institution seeks to provide access to microinsurance coverage for its clients, who are primarily low-income entrepreneurs supporting families.

This Agreement Regarding the Development and Sale of Microinsurance (this ‘Agreement’), dated as of 1 April 201_, is made:

BETWEEN	Progressive Microfinance Institution, a private not-for-profit company formed under the laws of country X (‘PMFI’)
AND	Insurance Company, a corporation formed under the laws of country X (the ‘Insurer’)

WHEREAS	PMFI wishes to enter into a sustainable and profitable business relationship with an insurance company to manage the risk of a microinsurance product (the ‘Product’) that is appropriate for its clients in country X;
WHEREAS	the Insurer wishes to develop and market microinsurance products together with an appropriate delivery channel;
WHEREAS	the Insurer submitted a tender form to PMFI, attached hereto as Attachment B (the ‘Tender Form’), in response to the invitation for tenders attached hereto as Attachment A (the ‘Invitation for Tenders’); and
WHEREAS	after reviewing the Tender Form and additional information, PMFI has selected the Insurer to develop the Product.
THEREFORE	the parties agree as follows:

SECTION I - SCOPE AND RELATIONSHIP BETWEEN THE PARTIES

Article 1: This Agreement governs relations between the parties hereto regarding the development and offer of the Product to PMFI’s clients.

Article 2: The parties are informed of and committed to the Tender Form and the Invitation for Tenders, the terms of which are integrated into this Agreement in their entirety.

SECTION II - WARRANTIES AND UNDERTAKINGS OF BOTH PARTIES

Article 1: The parties having understood the goals and responsibilities of this relationship, the details of the Tender Offer, and the responsibilities detailed in the Roles and Responsibilities table attached hereto as Attachment C (the ‘Roles and Responsibilities’), agree to work and collaborate in good faith in the preparation and execution of the Product.

Article 2: The parties undertake to provide the organizational, material and human support needed to facilitate the proper development and implementation of the Product, in particular by each designating a Microinsurance Officer to manage the Product and the obligations created under this Agreement.

SECTION III - REPRESENTATIONS, WARRANTIES and UNDERTAKINGS OF PMFI

Article 1: PMFI represents and warrants to the Insurer as follows:

1. It is a private not-for-profit company duly organized, validly existing and in good standing under the laws of country X.
2. The execution, delivery and performance of this Agreement have been duly authorized by all necessary action on the part of PMFI. This Agreement has been duly executed and delivered by PMFI and constitutes the valid and legally binding agreement of PMFI.
3. The information contained in the Invitation for Tenders is true and correct in all material respects.
4. It has completed and will provide full access to the following in relation to the Product:
   - Market research and feedback;
   - Prototype design, which has been made part of its Tender Offer;
   - Identification of the acceptable range for premium setting, as determined by market research.

Article 2: PMFI undertakes to perform the Roles and Responsibilities assigned to it and any other related activities reasonably necessary for the successful performance of such Roles and Responsibilities and/or development and implementation of the Product.

SECTION IV - REPRESENTATIONS, WARRANTIES and UNDERTAKINGS OF THE INSURER

Article 1: The Insurer represents and warrants to PMFI as follows:

1. The Insurer is a private corporation duly organized, validly existing and in good standing under the laws of country X.
2. The Insurer has all licenses and other authorizations required to carry out its obligations under this Agreement.
3. The execution, delivery and performance of this Agreement have been duly authorized by all necessary action on the part of the Insurer. This Agreement has been duly executed and delivered by the Insurer and constitutes the valid and legally binding agreement of the Insurer.
4. The information contained in the Tender Form is true and correct in all material respects.

Article 2: The Insurer undertakes to perform the Roles and Responsibilities assigned to it and any other related activities reasonably necessary for the successful performance of such Roles and Responsibilities and/or development and implementation of the Product.

Article 3: The Insurer certifies that PMFI may act legally as its agent in the sale of the Product to clients of PMFI, and that the Insurer will indemnify, defend and hold harmless PMFI against any and all losses or liabilities resulting from PMFI's actions as agent for the Insurer in accordance with the Roles and Responsibilities.

SECTION V - TERM AND TERMINATION

Article 1: This Agreement will terminate on 1 April 201_, unless renewed by the mutual consent of both parties.

Article 2: This Agreement or any renewal thereof may be terminated unilaterally by either party:

1. Upon 30 days' prior written notice in the event of a material breach of this Agreement by the other party.
2. Upon 90 days' prior written notice if such party reasonably determines that either party can no longer fulfil its obligations under the terms of this Agreement and that the effective implementation of the activities contemplated by the Agreement is no longer possible.

Article 3: This Agreement may be terminated at any time by mutual written consent of the parties.

SECTION VI - CONFIDENTIALITY

Article 1: Each of the parties agrees to keep confidential and not to disclose, directly or indirectly, any information regarding the other party's business, including, without limitation, information with respect to operations, procedures, methods, accounting, technical data or existing or potential customers, or any other information that the other party has designated as confidential.

SECTION VII - MISCELLANEOUS

Article 1: This Agreement and all of the provisions hereof shall be binding upon and shall inure to the benefit of the parties and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, directly or indirectly, including by operation of law, by any party without the prior written consent of the other party.

Article 2: This Agreement (including the Attachments hereto) constitutes the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter of this Agreement.

Article 3: This Agreement may be amended, modified or supplemented at any time only by written agreement of the parties.

Article 4: This Agreement shall be governed by and construed in accordance with the laws of country X (regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof) as to all matters, including matters of validity, construction, effect, performance and remedies.

Article 5: Any dispute arising out of or in connection with this Agreement shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules.

Article 6: All notices required or permitted to be given under this Agreement shall be in writing and shall be given by any of the following methods: (a) personal delivery; (b) registered or certified mail, postage prepaid, return receipt requested; (c) overnight mail; or (d) facsimile transmission. Notices shall be sent to the following addresses:

PMFI: ______________________________

Insurer: ______________________________

IN WITNESS WHEREOF, the parties agree to the terms of this Agreement and commit themselves thereto as of the date first set forth above.

Progressive MFI

By:

Name: ______________________________

Title: ______________________________

Insurance Company

By:

Name: ______________________________

Title: ______________________________

Attachments:

Attachment A: Invitation for Tenders

Attachment B: Tender Form

Attachment C: Roles and Responsibilities

ANNEX 7
Sample roles and responsibilities in a partnering relationship

In any partnership, it is important to delineate who will be responsible for a given activity or deliverable. Use this chart to identify which party performs each role. Note that while this list contains many of the issues you should consider, it is not exhaustive, and you may wish to add items (or sub-items) as appropriate to your particular situation. Be sure to spell out clearly what each party will/will not do. And be sure that both parties understand and accept their roles and responsibilities, as this will help minimize potential misunderstandings and problems.

Relationship element	MFI role	Insurer role
Initial screening of clients		
Product design		
Risk analysis		
Pricing		
Staff training in insurance concepts		
Testing		
Contract preparation		
Promotion to clients		
Assisting clients with insurance preparations (e.g. beneficiary designation)		
Processing of insurance applications		
Premium collection		
Transaction logging		
Client monitoring		
Claims application assistance		
Claims review and assessment		
Claims payment		
Capital mobilization		
Reinsurance		
Internal audit		
Conflict resolution		
Market research and feedback		
Statutory obligations (e.g. reporting)		
New market development		
Legal issues		

Source: Adapted from Churchill (2003).

ANNEX 8
Performance monitoring data and calculation requirements

The 10 key indicators are relevant to any risk-bearing (i.e. partner/agent) programme. The following table summarizes the typical requirements for calculating them:

Indicator	Common data and calculation requirements
Net income ratio	1. The insurer must provide a balance sheet and income statement for the programme, i.e. not just for the entire insurance company. 2. Earned premium should be provided by the insurer. 3. If a third-party administrator (TPA) is involved, its costs must be included in the expenses chapter. 4. The TPA may be in charge of the claims database; this is used by the insurer to prepare claims costs and claim reserves. 5. The agent/sponsor must separate its microinsurance data from the data of its other activities.
Incurred expense ratio	The expenses of all partners must be combined.
Incurred claims ratio	The paid claims and claims reserves should be based on an audited claims database. If the agent is providing extra benefits, these should be included.
Renewal rate	The renewal rate should be frequently calculated by an MIS application attached to the client and coverage history database. This database is likely to be maintained by the agent.
Promptness of claims settlement	The claims database and other sources should be used to calculate this indicator.
Claims rejection ratio	The claims database and other sources should be used to calculate this indicator.
Growth ratio	The growth rate should be frequently calculated by an MIS application attached to the client and coverage history database. This database is likely to be maintained by the agent.
Coverage ratio	The agent should define its target market to calculate this indicator.
Solvency ratio	The solvency ratio should be determined for the insurer.
Liquidity ratio	The liquidity ratio should be determined for the insurer – and for the agent as well if it is providing some of the benefits.

Source: Wipf and Garand (2010).

ANNEX 9

Master new-product development checklist for microinsurance

Institutional assessment

- ☐ Managers receive positive answers to key questions that assess the institution's preparedness for product development
  - Motivation: Is it setting out to develop a microinsurance product to respond to market demand?
  - Commitment: Is it beginning product development as a process?
  - Capacity: Does it have the ability to focus on the development of a microinsurance product?
  - Cost-effectiveness: Can innovation be used to lower the costs of microinsurance operations?
  - Simplicity: Can products be developed that are simple for the institution and its policyholders?
  - Budget: Is there budget available to effectively implement a product development process?
- ☐ Select a product champion for the delivery channel and the insurer
- ☐ Honest institutional assessment by product champion
  - Institutional strategy
  - Organizational culture
  - Marketing
  - Financial viability
  - Human resources
  - Partnerships
  - Systems
- ☐ Address gaps found during institutional assessment
- ☐ Provide product champion with mandate to begin process
- ☐ Core product development team identified by product champions of respective partners

Market research

- ☐ Qualitative demand research
  - Identify what risks people face
  - Understand how risks are managed
  - Identify gaps within risk-management strategies
- ☐ Supply research
  - Understand what products are available within prospective market
  - Understand how other insurers operate in market and what can be learned from their products and processes
  - Develop and complete a supply-side analysis matrix with inputs from market demand research
- ☐ Delivery channels research
  - Understand who is distributing microinsurance
  - Understand which distribution channels might be appropriate
- ☐ Regulations research
  - Understand regulations in terms of planned activities
  - Review laws to identify potential conflicts (through an attorney)
  - Think about licensing requirements for insurers and agents, marketing restrictions, product registration and other legal requirements
- ☐ Develop summary market analysis

Prototype design and testing

- ☐ Return to supply-side research matrix and map details of product prototype to the extent possible
- ☐ Delete irrelevant items from sample matrix and add important new items to matrix
- ☐ Summarize key points into general product description
- ☐ Return to market to conduct quantitative market research once prototype is developed
  - Ask for demographic, economic and attitude information
  - Ask questions about basic information on product
- ☐ Use data from quantitative research to assess and apply the access frontier
- ☐ Review results
- ☐ Make adjustments to prototype

Partnerships

- ☐ Review questions from “Considerations in choosing an insurance company partner” and, after completing the tender process, choose the insurer yielding the highest number of positive answers
- ☐ Prepare an invitation for tenders that includes:
  - Explanation of interest
  - Expectations of the insurer
  - Summary of research results thus far
  - Details of product developed thus far and the product desired
  - Template for insurer’s response
  - Information about how tenders will be assessed
  - Deadlines and information about submission
- ☐ Hold meeting with insurers to introduce the tender process, share information about research findings and address questions, or send offer directly
- ☐ E-mail responses to insurers’ questions to everyone who received the invitation
- ☐ Prepare grid for quantitative assessment and assign weights before receiving bids
- ☐ Quantitatively assess bids
- ☐ Select the two or three most appropriate insurers for additional discussions
- ☐ Make final selection after additional discussions and reaffirming results of qualitative assessment
- ☐ Sign a contract or other appropriate legal document clarifying the relationship

Product design

- ☐ Clearly define a well-designed product in terms of:
  - Controls for adverse selection, moral hazard and fraud
  - Compulsory versus voluntary coverage
  - Group versus individual versus hybrid coverage
  - Term of coverage
  - Policy document
  - Premiums
  - Claims administration
  - Simplicity
- ☐ Ensure that the product is S.U.A.V.E. (simple, understood, accessible, valuable and efficient)

Pilot testing and review

- ☐ Test product by marketing and selling it to clients
- ☐ Test people who implement the product to assess their effectiveness
- ☐ Test systems to find problem areas
- ☐ Follow the 10 general steps of effective pilot testing
    - Compose pilot test team
    - Develop testing protocol
    - Define objectives
    - Prepare all systems
    - Model financial projections
    - Document product procedures
    - Develop customer marketing materials
    - Train relevant staff
    - Begin product test
    - Evaluate test
- ☐ Compile documentation and lessons from the test and, based on those, write recommendation to the board and insurer
- ☐ Make necessary adjustments

Roll-out

- ☐ Compose roll-out team
- ☐ Develop protocol
- ☐ Model financial projection
- ☐ Fully train all front-line staff in microinsurance
- ☐ Enhance the capacity of systems to allow for expansion
- ☐ Computerize (at least for input of basic policy information) and enhance branch connectivity, if necessary
- ☐ Engage in broader marketing, taking into consideration lessons learned during pilot testing
- ☐ Develop effective plan for product expansion
- ☐ Expand communications efforts to staff throughout MFI, if possible
- ☐ Assess the roll-out process

Continuous assessment

- ☐ Monitor related microinsurance activity using key performance indicators
- ☐ Delivery channels should track incurred expense, incurred claims, renewal, claims rejection, growth and coverage ratios, along with promptness of claims settlement
- ☐ Insurers should track all of the above, along with net income, solvency and liquidity ratios
- ☐ Disaggregate data between microinsurance and conventional insurance products

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