Microinsurance Learning and Knowledge

MILK Brief #33: "The Right Touch" – Reducing Distribution Costs in Alternative Channels for Microinsurance[1]

Introduction

"Touch" level – or the nature and extent of a company's interaction with the buyer and / or end user – is considered an integral part of the customer experience for a variety of products and services. Some products and services (e.g. mobile airtime sales) are easily suited to low touch strategies, while others (e.g. medical care) work best with a higher touch level. Some scholars posit that clients themselves determine the degree of touch they prefer for each service, and that service providers should offer multiple options to match different preferences (Jarniven et al., 2003).

The "touch" level of a sale is determined largely by the amount of time spent with a prospective client explaining the product and any choices the client may make. It is also determined by the atmosphere in which the sale occurs (whether it is private and otherwise conducive to discussion and asking questions) and by whether the client or the sales staff initiates the conversation. Insurance sales can fall anywhere along the spectrum from extremely low touch or even "no touch" (such as off the shelf retail products or mobile sales) to very high touch (such as traditional insurance sales with an agent sitting at one's dinner table explaining insurance).

Traditional insurance purchases for protection against serious risks are often made through high touch transactions involving extended conversations with an agent or broker. Kasper (2012) concludes that human interaction is key to insurance sales. Chen and Chang (2010) find that insurers using direct distribution are more efficient than those using indirect systems. The common mantra that "insurance is sold and not bought" reflects this view, which is particularly likely to hold when offering microinsurance products, which are often characterized by demand and distribution challenges. The South African insurer Hollard's experience in distribution confirms the importance of some level of touch in selling microinsurance: although some policies were sold through a completely passive "off the shelf" retail process, sales increased by over 600% when agents were placed in stores to promote the packages (Buthelezi, 2014).

Unfortunately, the very small size of microinsurance policies (with correspondingly low premiums) often cannot support costly distribution. Insurers often look to alternative channels – such as financial institutions, utility companies, retail chains, and even telecoms – to reduce costs and expand the scale of microinsurance by leveraging their existing infrastructure and customer relationships. Lower costs and greater efficiency might be achieved by rationalizing the use of "low touch" sales strategies through alternative channels, while remaining mindful to the profile of the appropriate target niches for each channel.

In light of the challenges that low touch distribution of microinsurance presents, the MicroInsurance Centre's MILK project partnered with regional insurance company Suramericana (hereafter "Sura") in Colombia to implement an exploratory study of insurance demand in two of its alternative distribution channels with distinct touch levels. The first segment consists of customers of credit cards offered by the supermarket chain Éxito. These clients are cross-sold insurance by customer service agents, a

[1] This MILK Brief was prepared by Derek Poulton and Barbara Magnoni (April 2014).

method that we consider to be relatively low touch.[2] The second segment consists of customers of regional gas companies who buy insurance from door-to-door salespeople of Brilla, a service provider affiliated with the gas companies. These are considered higher touch sales. Through direct observation of sales processes and a post-sale phone survey, we identified key characteristics of each customer segment and factors that may have influenced their purchase of insurance. The findings of this exploratory study reveal important considerations for providers of microinsurance hoping to reduce costs.

Sura "Touch" Options in the Study

Brilla salespeople offer "high touch" door-to-door sales and spend between 10 to 20 minutes with each potential customer.

Éxito salespeople, on the other hand, make quick cross sales to busy supermarket customers in 5 to 10 minutes. While not truly "low touch," this sales method takes a far lower touch approach than Brilla.

Methodology and Sampling

The study consisted of a 15 to 20 minute survey conducted by telephone with customers of two products (low cost life and funeral cover) in two cities (Barranquilla and Cali) per channel, to capture a potentially broader type of customer by product type or region. The survey asked about basic client information, experience with different financial services (including direct or indirect experience with insurance), the sales and post-sales experience, levels of trust in both Sura and the distribution channel, the general motives for purchase, and other general topics. The sample was chosen at random from a complete list of clients in each segment who had purchased their insurance within the last six months (to maximize recall) excluding the last two months (to minimize the incidence of poorly explained sales efforts, which may lead to purchases but are usually followed by cancelations within that period). Table 1 shows the detailed breakdown by product and city.

Table 1: Sample segments		BAQ.	CALI	TOTAL
Éxito ("lower touch")	Mercado Seguro (Life)	46	46	169
	Apoyo Seguro (Funeral)	30	47	
Brilla ("higher touch")	Brilla Module A (Life)	60	16	167
	Brilla Module C (Funeral)	41	50	
	TOTAL	177	159	**336**

About the clients

The typical customer who buys microinsurance differs significantly by delivery channel, between Brilla ("high touch") and Éxito ("low touch"). Table 2 compares key socio-economic characteristics and financial profiles by channel: Brilla microinsurance customers are much more likely than Éxito microinsurance customers to be women and to be poor. Additionally, Brilla customers had lower access to and experience with financial services, as indicated by a lower incidence of prior insurance, borrowing, or savings accounts. Finally, while outright distrust of either insurer or channel was low, Éxito customers were more likely to trust both insurer and channel "very much."

Table 2: Customer profiles	Brilla	Éxito	p-value
Gender (% women)	75%	46%	0.000**
Poverty level (% in NSE 1)[3]	71%	22%	0.000**
Average monthly income (USD)	827	1,824	0.001**
Had ever had insurance prior to the purchase (%)	27%	46%	0.000**
Had ever taken a loan prior to the purchase (%)	22%	64%	0.000**
Had ever opened a bank account prior to purchase (%)	33%	69%	0.000**
Trusts Sura (insurer) very much (%)	47%	66%	0.008**
Trusts the delivery channel very much (%)	48%	64%	0.014*

* indicates statistical significance within 5%, and ** within 1% certainty

[2] Notably, this is not the lowest "touch" method Sura has experimented with. More passive approaches such as off-the-shelf retail sales and catalog advertisements, however, have generated very low uptake.
[3] NSE refers to the Colombian government's socio-economic categorization used to determine social security and other benefits. NSE 1 is the lowest class, while NSE 5 is the highest.

These differences in profile and the consequent needs of each target market align well with the sales strategy of each channel. Busy Éxito customers are cross-sold insurance (lower touch) at supermarkets in low- and middle-income (NSE 2, 3, and 4)[4] neighborhoods by credit card customer service representatives. Their lower touch sales strategy must rely partially on those customers' greater experience with financial services and higher levels of trust in providers to convince them to purchase coverage.

Brilla customers, on the other hand, are sold insurance door-to-door offering personalized (high touch) attention in primarily lower-income neighborhoods. During our field visits, we found that these salespeople are more willing and able to speak to less experienced customers and explain the characteristics of the insurance product in more depth than salespeople working in a high-end supermarket. The level of touch also appears to influence how clients perceive their decision to purchase insurance. Brilla customers were more likely than Exito customers to report a planned purchase or impulse buy (48% vs 29%) while Exito customers were more likely to feel that they were convinced or pressured by the salesperson (69% vs. 47% for Brilla customers). This trend seems to indicate that high touch sales assign agency (or give the impression of agency) to the client, while low touch sales can feel pushy or perhaps rushed for clients, increasing the risk of high cancelations and low retention.

We did find, however, that while levels of trust do not vary by socio-economic stratum, less poor clients were more likely to report trust in Sura as a motivating factor for buying the insurance – 6% of NSE 1 respondents said trust in Sura attracted them, compared to 10% of NSE 2 and 17% of NSE 3. Conversely, the desire for direct contact to further explain the insurance was strongest among lower income customers – 85% of NSE 1 respondents requested follow-up, compared to just 74% of NSE 2 and 71% of NSE 3. It appears that trust (possibly fueled through previous experience with insurance) can substitute for complete up-front information in encouraging the decision to purchase.

Conclusions

Insurance demand (and sales) are influenced by prospective clients' perception of the value the offered product may have and of the risk it covers (McCord et al., 2012[5]). These, in turn, are determined by characteristics of the product, delivery, and client, including price, coverage, experience, trust, information, and understanding. Many of these factors are closely linked to value. Over the past three years, the MILK Project has been studying the value that microinsurance offers clients, and in particular the financial benefits of microinsurance coverage when a claim is made. We have found that microinsurance can offer clients financial relief, sometimes helping them to avoid or reduce reliance on "burdensome" strategies for coping with a financial shock, such as borrowing, selling assets or using up household savings. We have also found that in some cases, the financial value of microinsurance for clients is limited, in particular when it does not relieve the need to raise funds through such burdensome strategies (Zimmerman et al., 2013). Limited value may occur, for example, in the case of a small financial shock that is relatively easy to finance in the absence of insurance. Our health insurance studies suggest that even in the absence of a strong *financial* value proposition, health microinsurance may still offer value when covering small shocks (such as preventative or outpatient health needs) by driving positive behavioral incentives, such as the use of health services at early stages of illness, for example. In other cases, low financial value could signal a poorly designed product or one that is unable to effectively deliver on its promises.

In any case, clients' perception of financial value is a critical precursor to effective sales. If clients do not believe that a microinsurance product can reduce financial pressure on their households in the case of a financial shock, it will be met with low demand. Similarly, if a client does not believe that the price (premium) is attractive vis-a-vis the benefits, the product will find itself with few buyers. In Colombia, our Client Math study of MAPFRE's funeral insurance program (Magnoni & Poulton, 2012) illustrated a life insurance product that was valuable responding to the financial needs of low-income clients when a death occurred. Our survey of Sura clients in Colombia suggests that interviewed respondents also

[4] Ibid.

[5] MILK Brief #7 discusses the factors that can influence demand in greater detail. In addition to perceptions and misperceptions of risk and value, demand is influenced by psychological factors that often create substantial barriers to uptake.

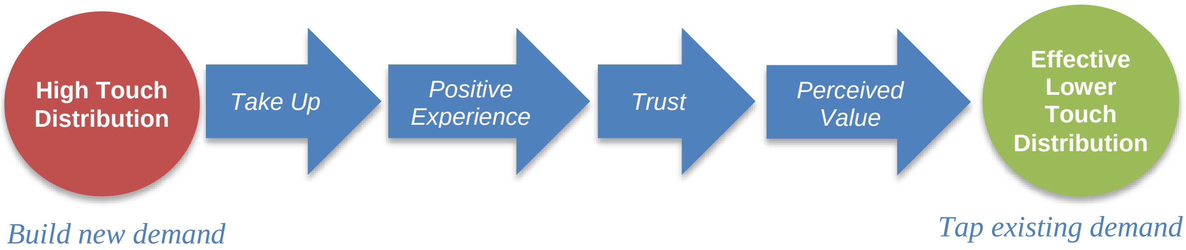
perceive value: the product's coverage was the most frequently cited attraction for purchasing insurance overall, regardless of the channel through which it was sold.

Ensuring that clients trust and perceive value in a product can be difficult and can require a higher touch approach to distribution, at consequently higher costs. To ensure that a product can be distributed effectively and be financially viable for the insurer, there is a need to balance the level of touch used in the sales process. It must be sufficient to reach target customers while economizing on costs. When making low touch sales, some quality of the purchaser and / or the channel must compensate for the lack of a thorough explanation. The different profiles of clients acquired by Sura through two different channels suggest that previous experience with financial services (including insurance) and trust in the insurer may be important influencers of the purchase decision. When clients have already used loans, savings, or especially insurance in the past, their enhanced comfort level and knowledge may substitute for answers to questions when there is little time for the salesperson to completely explain the fine details of a product.

Trust in the insurer, whether formed through personal experience or brand recognition, also appears to be an important factor in clients' purchase decisions, helping to ease the anxiety of purchasing a product even when product details are not fully understood. Trust in insurers and exposure to financial services are more common in relatively affluent customer segments, particularly among men. On the other hand, lower-income prospective clients with low levels of financial access (e.g. low-income Colombian housewives) may require more careful explanation of the product, including follow-up contact to refresh or remind.

Our observations have important implications for those considering ways to economize costs of microinsurance distribution (see Figure 1). Early on, when populations are unbanked and unfamiliar with insurance, high touch strategies may be best suited to reach low-income people. Insurers who may be discouraged by the need for higher touch sales should weigh these costs against the greater effectiveness of such high touch strategies, also considering the costs of cancelations and resolving disputes from unsatisfied customers who purchase products they do not fully understand through low touch strategies. High touch sales, if effective in building experience and trust, may be a precursor to a gradual transition to low touch customer service over time, potentially including mobile and online platforms. In countries such as Colombia, where some segments of the population have familiarity and experience with financial services, including insurance, and where insurance "brands" are often well-known, insurers such as Sura have already begun experimenting with this process, segmenting target groups and focusing on delivery channels that reach these groups with varying levels of touch.

Figure 1: Possible progression from high- to lower-touch distribution



However, not all microinsurance markets share the Colombian market's maturity and outreach. In less mature markets, it may be relevant to consider the ways that insurers may "speed" the process of building insurance experience and awareness. Specifically, examples abound of the use of subsidy as a "free trial" to familiarize clients with insurance. In Ghana, various mobile carriers offer free insurance as an incentive for loyal airtime customers, selling top-ups as a subsequent step to the free experience. In Mexico, the MILK Project implemented a randomized controlled experiment with Banco Compartamos that revealed that microfinance clients who received free life insurance were for the most part willing to purchase this insurance at cost when its subsidy was removed (Bauchet et al., 2013). Both high touch sales and premium subsidies come at a cost, and more research is needed to better understand the longer-term benefits of each method of boosting insurance outreach as a precursor to lower-touch delivery.

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Microinsurance Learning and Knowledge (MILK) is a project of the MicroInsurance Centre that is working collaboratively to understand client value and business case in microinsurance. Barbara Magnoni leads the client value effort and Rick Koven leads the effort on the business case. Contact Michael J. McCord (mjmccord@microinsurancecentre.org), who directs the project, for more information.