Microinsurance Intermediaries Part II

As a follow up to our previous paper on the Business Case for Microinsurance-only Multinational Intermediaries (see MILK Brief #19, January 2013), the MicroInsurance Centre's MILK Project team conducted a series of interviews with key management of microinsurance intermediaries to try to answer some of the outstanding questions raised in the first paper. This final short paper synthesizes the four interviews and brings together the lessons we have learned regarding the business case for microinsurance intermediaries.

Introduction[1]

Is there a business case for Microinsurance intermediaries? The MicroInsurance Centre's MILK Project examined this question in MILK Brief #19 in January 2013 and concluded that in their early stage of development multi-national microinsurance-only intermediaries were struggling to achieve financial sustainability. To follow up, MILK recently conducted a series of interviews with key management of four prominent microinsurance intermediaries. Interviews included Richard Leftley of **MicroEnsure** and the management team at **PlaNet Guarantee**; both of these standalone multi-national microinsurance intermediaries were the subjects of our earlier paper. In the initial study we also included the **AKAM** microinsurance initiative; however, its First Microinsurance Agency in Pakistan was since merged into an insurer, and microinsurance operations in Geneva have ceased.

For this follow-up study we also spoke with Jose Luis Contreras of **Aon Bolivia**, a commercial broker that includes microinsurance among its product lines, and Afua Boahemaa Donkor of **Star Microinsurance Services Ltd**. **("Star Micro")**, a microinsurance-only agency established by a commercial insurance firm in Ghana. In this paper we bring together the insights from our discussions with these four front line, pioneering managers as well as review the financial outcomes of their microinsurance activities.

Background

All five intermediaries we studied commenced operations at approximately the same time (2006-2008), which many consider the boom years for microinsurance when donor money and commercial interest were at a peak. All attempted to leverage their parent or sponsoring institution. In the case of PlaNet Guarantee, MicroEnsure and AKAM this meant accessing affiliated MFI networks to sell credit life cover. Aon Bolivia also looked first to MFI distribution of credit life as an entrée into the micro market while leveraging their firm's commercial insurance expertise and resources. Star Micro had start-up capital and shared resources (such as IT) from its insurer parent; its book of business is 60% credit life and so still relies on this baseline strategy to large degree. Time has proven that broking credit life alone does not make for a business case. As Mathieu Dubreuil of PlaNet Guarantee puts it, "You have to start somewhere, but credit life alone doesn't fulfill our social mission, nor is it going to make us sustainable as a business." As a result, all struggled early on to reach scale and profitability. Each has since moved through several iterations of strategy, changing product focus, experimenting with alternate distribution, expanding and then consolidating operations. This all-out search for business success by the intermediaries as a group is particularly interesting to study.

Despite the commonalities, each of the five institutions reflects a distinct business case, and so their results must be viewed separately as well. They work in different countries with disparate products and

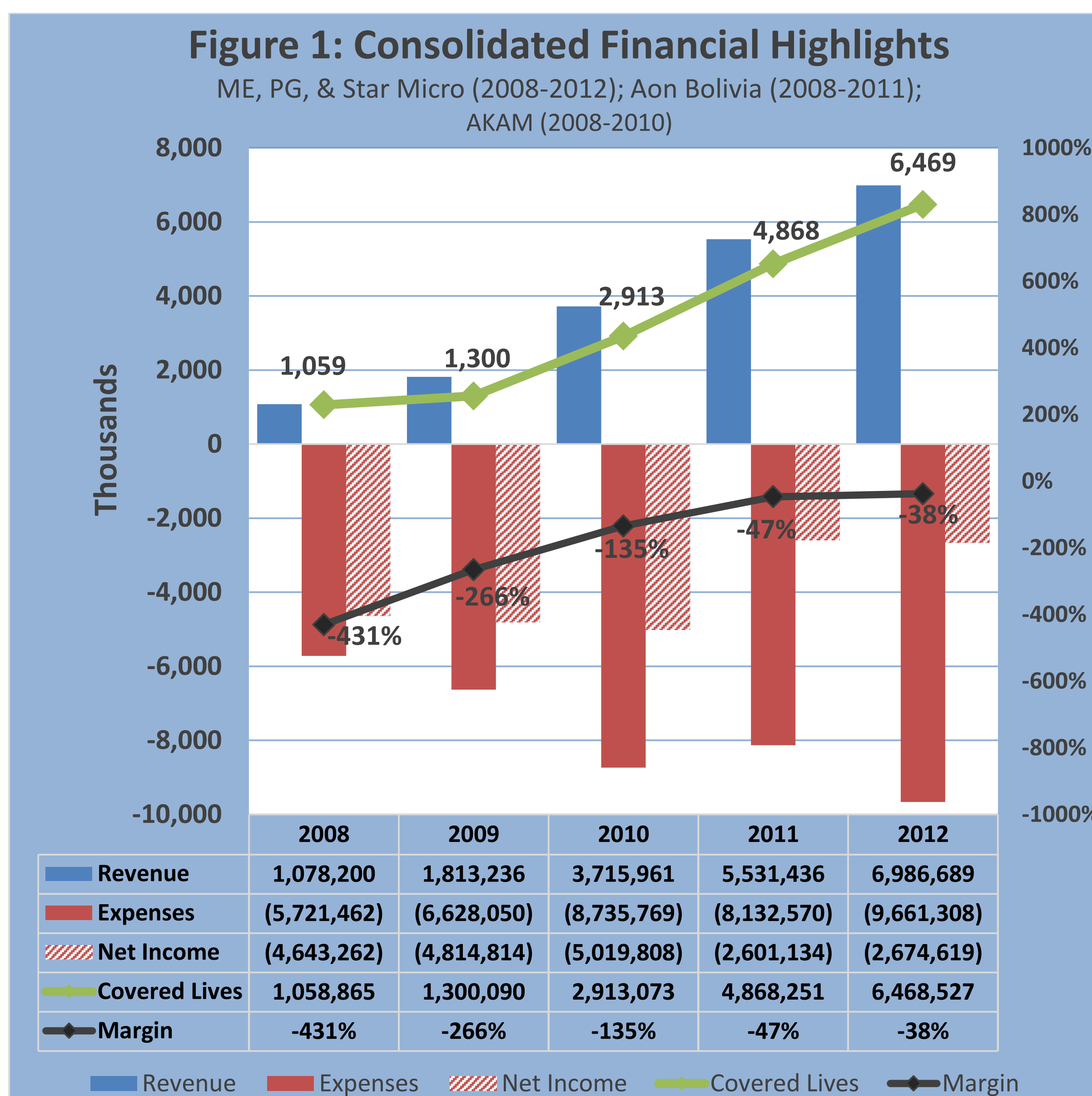
[1] This paper was written by Rick Koven, the Business Case Manager of the MicroInsurance Centre's MILK project (February 2014).

distribution strategies. Some relied on donor support, some on private investors, and some on resources provided by parent organizations. In the end, however, what ties them together is that they uniformly see themselves as filling a gap in the microinsurance value chain - bringing together insurers that are unfamiliar with the BOP market and delivery channels (such as MFIs and NGOs) that are unfamiliar with insurance. Or as Jose Luis Contreras of Aon put it, "We're a market maker; MFIs don't want to handle insurance – a product that they do not own or even understand. We have the skills and bargaining power and the leverage to deal effectively with the insurers. This is where we add value."

Is Contreras right? Do these intermediaries have a value proposition that makes them essential to the success of microinsurance? And just as importantly, is there the money to pay for those services? With the additional financial data we now have collected coupled with in-depth conversations we have had with these mangers, and with these microinsurance intermediaries "coming of age", MILK believes we may begin answering these questions.

MILK's Analysis and Observations

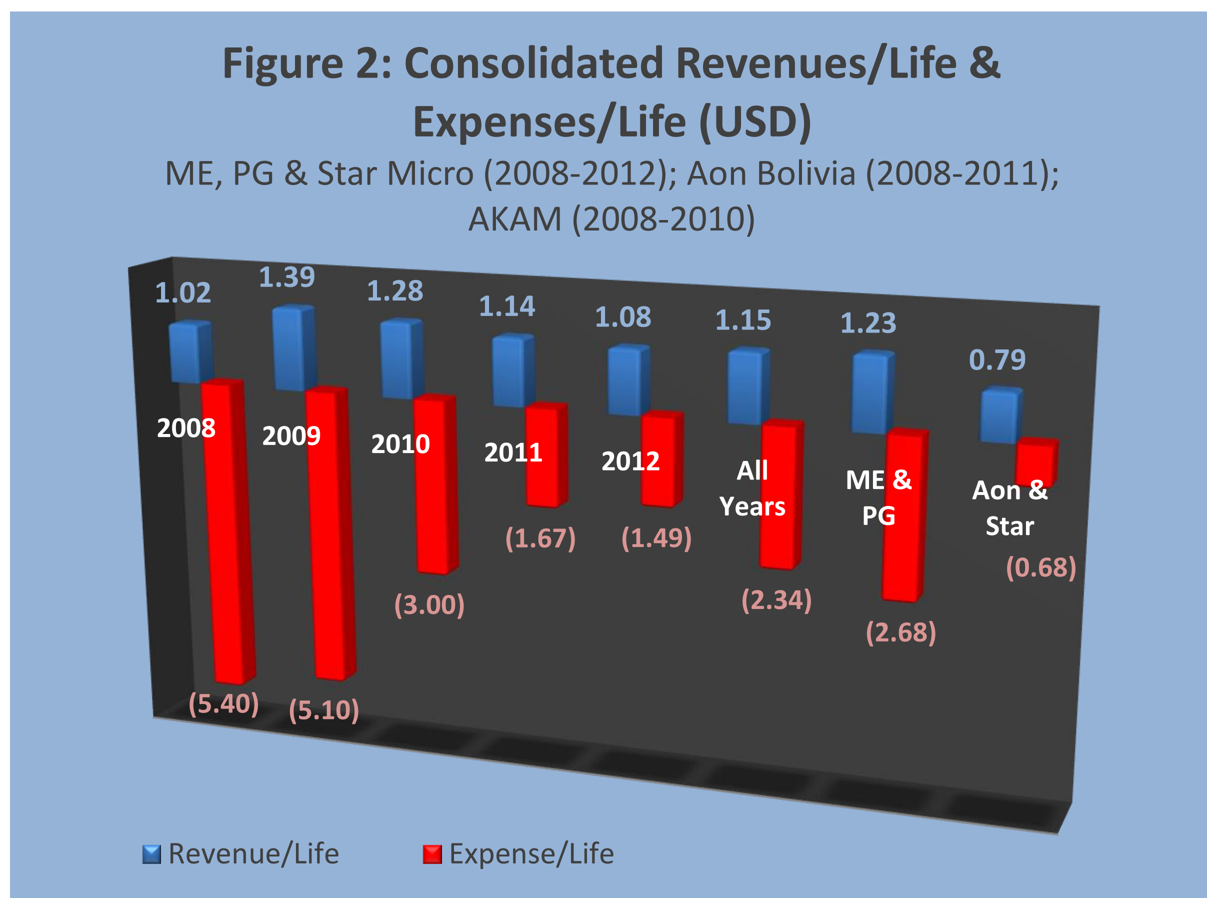
Looking at their consolidated results in Figure 1, we can see that the five microinsurance intermediaries grew rapidly over the five year study period (2008-2012), achieving compounded annual revenue growth rate (CAGR) of 60%. Importantly for a business case, their consolidated revenue is growing faster than expenses, which have a CAGR of 12%. By 2012 the firms collectively covered 6.5 million lives and generated about USD 7 million in microinsurance fee and commission revenue.



	2008	2009	2010	2011	2012
Revenue	1,078,200	1,813,236	3,715,961	5,531,436	6,986,689
Expenses	(5,721,462)	(6,628,050)	(8,735,769)	(8,132,570)	(9,661,308)
Net Income	(4,643,262)	(4,814,814)	(5,019,808)	(2,601,134)	(2,674,619)
Covered Lives	1,058,865	1,300,090	2,913,073	4,868,251	6,468,527
Margin	-431%	-266%	-135%	-47%	-38%

In sum, the firms experienced healthy growth and improving margins. However, while they narrowed the gap between revenues and expenses (from -431% to - 38% on a consolidated basis) they have not closed it.

Behind these consolidated results we find that MicroEnsure and PlaNet Guarantee grew faster than Star and Aon Bolivia, but these smaller, single country brokers are now profitable, while PlaNet Guarantee and MicroEnsure have yet to break even. As standalone firms, MicroEnsure and PlaNet Guarantee have much higher unit costs since they do not have diversified books of business over which to spread costs. Mathieu Dubreuil of PlaNet Guarantee is emphatic on this point: “It’s difficult to be a pure microinsurance player, we need enormous volume and we need to be incredibly efficient.” By one measure, expense per covered life (see Figure 2), Aon Bolivia and Star have achieved that efficiency with an average cost across all years of USD 0.68 as compared to PlaNet Guarantee and MicroEnsure at USD 2.68. Of course, MicroEnsure, PlaNet Guarantee and AKAM enjoyed donor support in their startup which covered their shortfall between revenue and expense. These subsidies were not available to the Star and Aon, which relied on internal support and / or capital contributions from their commercially oriented firms.



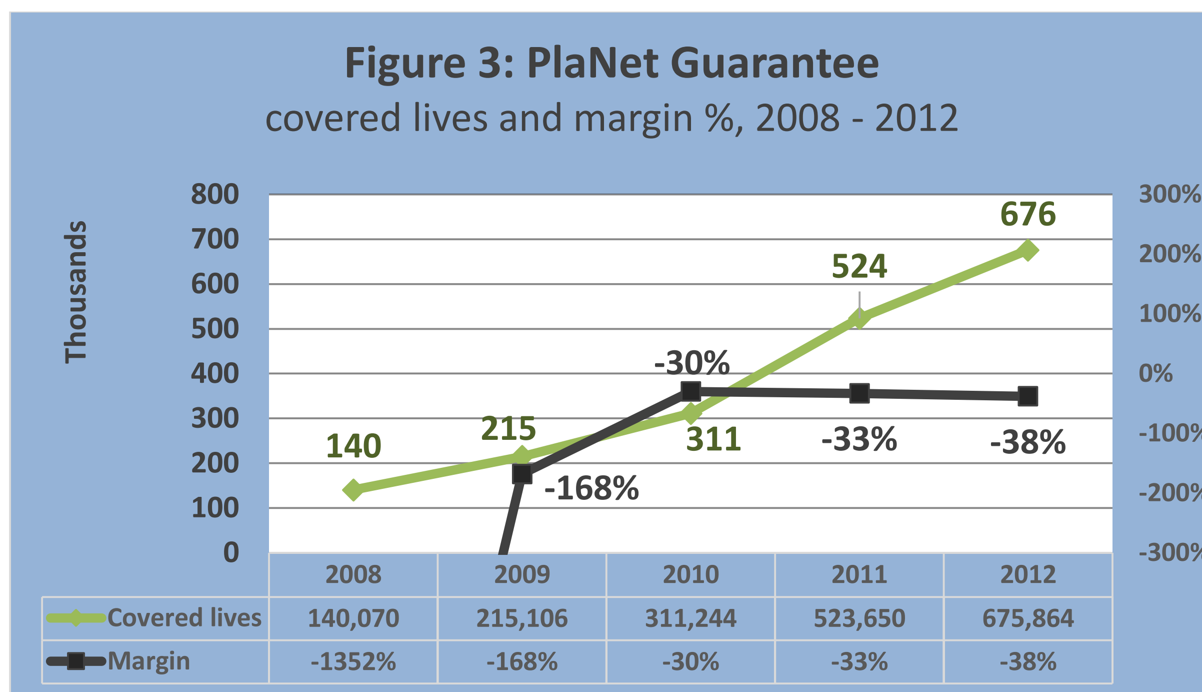
Discussion of Business Case Factors

MILK has looked at business case relative to eight factors: program age, scale, business model, product type, distribution, enrollment mode, subsidy and competition. We are going to focus on scale, business model, product type and distribution, which in our view are the critical success factors for these intermediaries.

Scale

As seen in Figure 2 above, the firms on a consolidated basis earn average revenue of just over USD 1.00 per year per life, which makes scale critical. Again as Figure 2 shows, expenses per covered life have come down as the firms have grown and are better able to cover fixed costs. However, revenues per life are essentially static. Premiums are so small that making a business case by earning 10% - 15% commissions on those tiny premiums is hugely leveraged to scale. Unfortunately, scale is more often than not much harder to achieve than what these managers project in their initial business plans.

In Figure 3 below we can see how growth in scale for PlaNet Guarantee stabilized its margins after a difficult start in 2008-2009.



	2008	2009	2010	2011	2012
Covered lives	140,070	215,106	311,244	523,650	675,864
Margin	-1352%	-168%	-30%	-33%	-38%

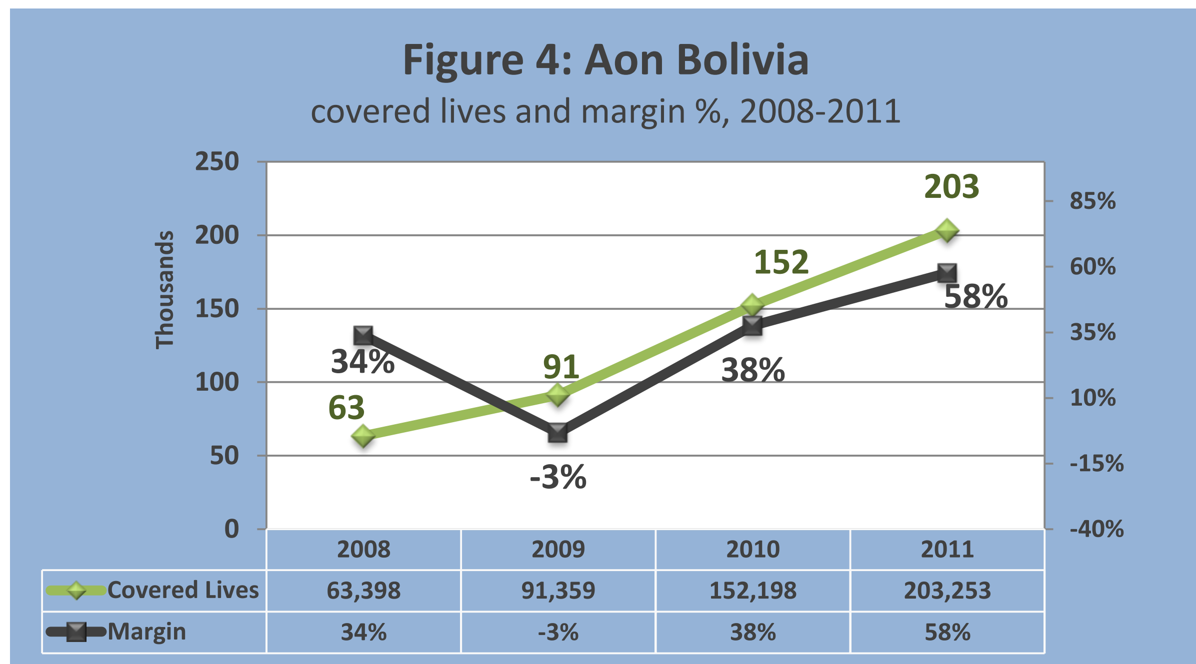
Business Model

The basic business of broking is to be a market maker. The microinsurance intermediaries we studied had no problem fulfilling this role; they readily matched buyers and sellers of insurance. What has been a problem, however, is making a profit from simple broking of microinsurance. The initial business model for both MicroEnsure and PlaNet Guarantee was to do broking on a global scale matching their parent MFI operations. However, each has since consolidated operations significantly when each found that global reach was unsupportable. Dubreuil remarked, "That kind of footprint was too expensive relative to the revenues. In 2011 we consolidated to focus on French-speaking West Africa where we earn 90% of our fee income anyway." Focusing on a single country and not having to support expensive European based headquarters, both Star and Aon Bolivia have reached profitability much more quickly than their more ambitious counterparts.

Another challenge to the basic business model for microinsurance broking is that almost invariably these firms work in the partner (insurer) - agent (MFI, NGO) model in which they are drawn into a much broader scope of services when traditional insurers and distributors cannot or will not provide the required services and functionality along the value chain. Here is what Richard Leftley has to say about broking: "Another big lesson has been that we are not just broking, there's not enough commission in broking for a business case. We need to get deeply involved along the value chain so that we are indispensable." The conundrum, however, is that the demand for the intermediaries' "Jack of all Trades" set of services is not typically matched with the requisite commission to pay for them. Facing this challenge, PlaNet Guarantee has been particularly nimble. In recent years it began to focus on consulting fees earned for research and development, which are available early in the product life cycle even before commission begins to flow from sales transactions.

Of course both Dubreuil and Leftley are with firms that enjoyed initial support from donors but cannot rely on a diversified book of commercial business to cover fixed costs over time. In this way the microinsurance intermediaries embedded in or supported by traditional firms enjoy a significant advantage. Our data shows they achieve profitability much more readily than the standalones; Contreras is clear on this point: "If we would have started out as a standalone outside of Aon we would have failed. To start out we basically only had to cover our marginal costs." Figure 4 shows how Aon Bolivia overcame volatile results in its first two years and became highly profitable in the years since. In 2010 it strategically realigned its microinsurance activities by merging them into its mass marketing division. Contreras explains the rationale: "We can plug into bank and retail channels that were developed under the affinity banner which gives us access to much, much bigger volumes. The key is

operational focus, efficiency, and the ability to handle large volumes. A bigger pie allows all to make money."



So the firms with a single country focus built on an existing commercial platform get to profitability more quickly. Yet inarguably the standalone firms have grown faster and had greater impact on the industry with their innovative strategies. Interestingly, one can view Star Micro as a hybrid approach that may draw on the advantages of the two different business models. Basically Star set up its micro business as a strategic business unit outside the existing firm. As Afua Donkor, Star's Executive Director, explains, "It is important to separate microinsurance from traditional insurance. It's more expensive to set it up separately than within the company. But I would have found it much more difficult to do what I have been able to do that way. I can imagine being a department within the structure and bureaucracy of the traditional insurance cannot really work with microinsurance. I think all of this would have affected the way we run the business in terms of fast claims payment, in terms of design of products."

Product Type

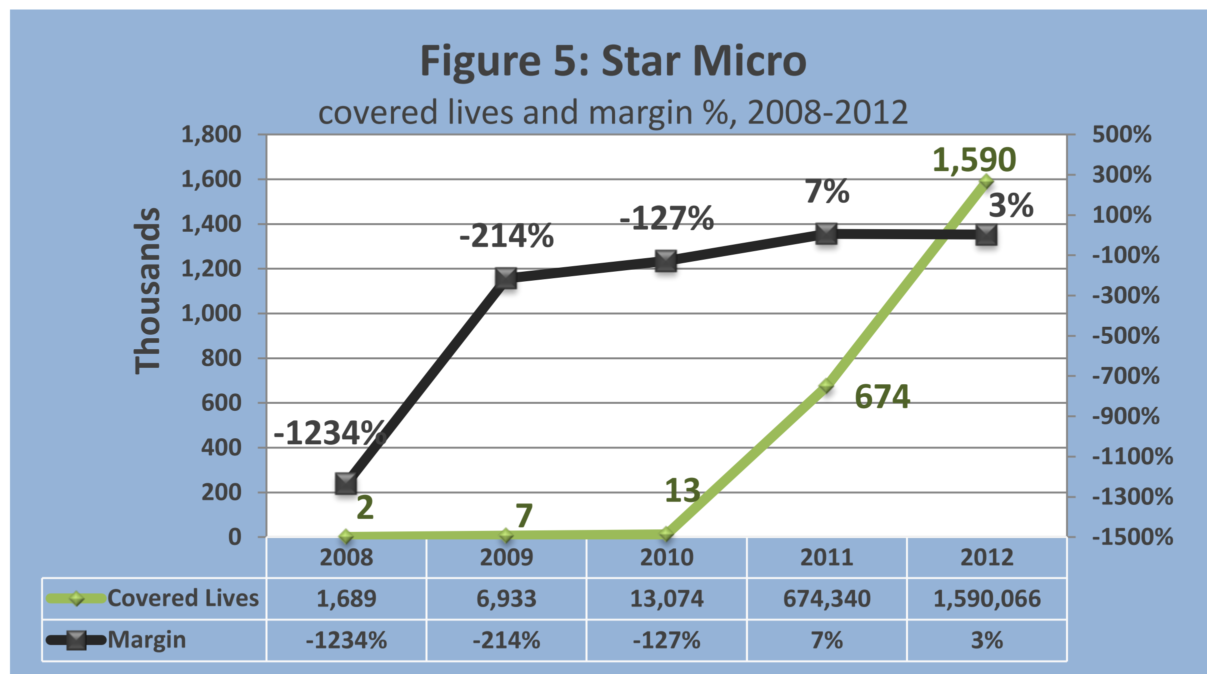
We noted that the intermediaries we studied started with credit life, which did not lead to a business case, other than for Star. In response, the intermediaries broadened their product lines, typically adding voluntary products which are more complex and less commodity-like than credit life and therefore less vulnerable to disintermediation.

Seeking revenue, AKAM, MicroEnsure and PlaNet Guarantee all entered the health care market, where the opportunity seemed limitless. Uniformly those forays did not meet expectations and all have since exited or largely retrenched. Perhaps these outcomes were not a function of the intermediaries' role – a role that seems to likely add value in the complex health care equation – but rather a function of the endemic problems with the business case for voluntary, private, unsubsidized health microinsurance (which MILK addresses in detail in Brief #26). The MFI distribution networks that the firms found helpful in selling life insurance were not well suited to selling health. Additionally, the cost of MFI distribution, the cost of TPAs and the premium needs of the underwriters simply did not leave enough room for a sufficient fee to the intermediaries. MicroEnsure, for instance, made a significant investment in health in India with high hopes but in the end was unable to gain much traction or match up against the government supported programs. As Richard Leftley puts it, "RSBY is a dominant force. I don't think you can do a proper health plan without government support and the scale that comes along with government support."

Agricultural microinsurance, including catastrophic risk cover, seems promising and is drawing the attention of several of the firms we studied. Like health, this is a complex product with multiple stakeholders blending with the need for strong product development and program management – again

a role that the intermediaries seem well suited for. A consulting rather than broking role has been successful for both PlaNet Guarantee and MicroEnsure in this field.

In the end it seems that the each of intermediaries is entrepreneurially driven and has moved creatively from product to product in search of a business case. Aon Bolivia, for instance, is experimenting with a micro pension program. PlaNet Guarantee is adding road personal accident. MicroEnsure, as we will discuss in the next section of this paper, has pioneered in the field of e-insurance; lastly Star Micro started out selling individual credit life went on to funeral cover, hospital cash cover and more products. Interestingly, Star worked in collaboration with MicroEnsure, and as Figure 5 demonstrates, Star's business has taken off and moved it to modest profitability.

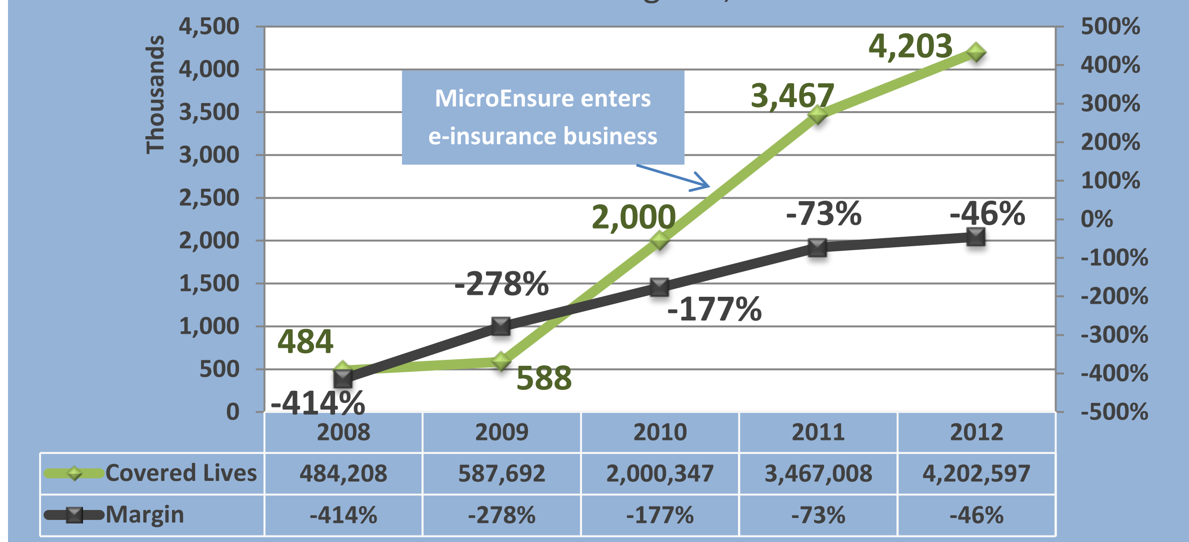


	2008	2009	2010	2011	2012
Covered Lives	1,689	6,933	13,074	674,340	1,590,066
Margin	-1234%	-214%	-127%	7%	3%

Distribution

MFI distribution was the predominant model in the early years of microinsurance, and not surprisingly the intermediaries initially embraced it. MFI distribution proved to have clear but limited utility for selling insurance. As the intermediaries evolved past selling credit life and on to more complex products, they ran head on into these limitations. The intermediation of health insurance sold under the partner-agent model on a voluntary basis has been spectacularly unsuccessful and led to the demise of AKAM and was almost the undoing of MicroEnsure.

Faced with this challenge the intermediaries have again responded creatively. Star Micro, for example, began with an individual sales model which did not produce tangible results. Since these early struggles, it has innovated using the Ghana Post and its 700 branches and agencies nationwide as a distribution partner. Perhaps most dramatically, MicroEnsure moved innovatively to engage mobile network operators for the distribution of life, hospital cash, and personal accident microinsurance. The result has been massive scale with respect to lives covered in these customer loyalty programs. In fact, measured by covered lives, MicroEnsure is by far and away the largest intermediary in the field. However, commission revenue streams from these same programs are as of yet insufficient to drive profitability. Management is working on ways to "monetize" the asset of millions of covered lives by upselling voluntary cover. Like Aon Bolivia, MicroEnsure is undergoing a strategic realignment to broaden its market reach. According to Richard Leftley, "One major lesson, and there have been many, is that we can't see ourselves, or even refer to ourselves, as microinsurance brokers but rather as insurance specialists to the mass market. Micro is a limiting characterization for distributors like telcos. Mass marketing casts a wider net, wide enough to catch the poor without the limitations that micro implies." The obvious question then is will Aon Bolivia and MicroEnsure gain access to the mass scale that they so desperately need but in the process lose their focus on insuring the poor?



	2008	2009	2010	2011	2012
Covered Lives	484,208	587,692	2,000,347	3,467,008	4,202,597
Margin	-414%	-278%	-177%	-73%	-46%

Conclusion

Birthed in the boom years of microinsurance when a business case seemed a given, the intermediaries we studied are now growing up. Maturation, of course, inevitably involves experimentation and setbacks. As they come of age, firms are discovering who they are, a process that involves much trial and much error. Changes in business model, product focus and distribution strategy have been fast and furious. The essential business challenge for a microinsurance intermediary is how to make a living with a small slice (commissions) of a very small premium. The business case is challenging because it requires massive scale at minimal cost. Mathieu Dubreuil puts it succinctly, “We are at a crucial juncture in our development. I do think that getting costs down is as much a key as growing revenues.”

When we published our first paper on microinsurance intermediaries we were uncertain about the business case which seemed to require massification at an incredible level of efficiency. Since then MicroEnsure and PlaNet Guarantee have consolidated operations and reduced overhead while still operating on a multinational basis. Yet with their singular focus on microinsurance they have clearly progressed, growing their revenues quickly and reducing their cost basis as they grow. Along the way they also contributed important innovations and are undeniably relevant institutions in this emerging field. Nonetheless, they must still prove to their backers that they can make and sustain profitability.

Adding Aon Bolivia and Star Micro to our study group gives new dimension to the discussion. With their single country scope and embedded in or supported by commercial firms, they have proven that a microinsurance intermediary can be profitable. For them, the challenge is to reach a scale at which they are sizable enough to be relevant to their sponsors.

MILK sees the challenges and successes of the intermediaries as a microcosm of the larger industry. The business case for microinsurance itself is still unclear. Disappointments and failures have been many. Clear cut successes, while also evident, tend to be at smaller scale with simple products, often built on a platform of government or donor subsidy or through the implicit support of a corporate parent. Will the intermediaries succeed because microinsurance itself succeeds or will it be vice versa? We can say confidently that the (self-admittedly) battle-scarred but still intrepid leaders of these firms will have their say in the outcome.

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.