15.992 Laboratory for Sustainable Business

Final Report

Mibanco Microinsurance

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EXECUTIVE SUMMARY

Mibanco is a pioneering microfinance institution in Peru, with a strong market share (51.6% of microcredit loans serviced by banks are from Mibanco) and a focus on microentrepreneurs. Given that microentrepreneurs are responsible for 42% of Peru’s GDP and 99% of its business, this is a very attractive customer segment and one which can benefit immensely from the services of a microfinance organization. Having already established itself as a leading microcredit institution, Mibanco is looking for ways to gain a foothold in the insurance sector by bringing microinsurance products to microentrepreneur customers.

Microinsurance is a growing segment within the microfinance field. However, several challenges limit effective adoption by and penetration of this product amongst the target market. Customer education, product design, product pricing as well as rollout strategy and delivery methods are all significant challenges that Mibanco faces. In a workshop presentation to the 10th MFC Conference of Microfinance Institutions, Craig Churchill of the International Labour Organization identified ten key recommendations for managing a “diverse microfinance menu” (see Appendix A). While these recommendations were initially prepared and intended for a microfinance audience, we find them particularly salient as Mibanco attempts to expand their business in the microinsurance segment, and suggest that Mibanco make liberal use of them as the rollout strategy is refined.

With 38 active microfinance institutions in Peru, there are plenty of potential entrants to the microinsurance market, however Mibanco is in a great position to be the leading microinsurance organization in the country. Mibanco possesses strategic advantages that its competitors do not have: a large network of branches, entrenched agents, and established customers. They also have the ability to form a strategic partnership with Protecta, a sister insurance company under the common parent ACP, which will give them the required complementary skills of insurance experience as well as the knowledge to design relevant products for their targeted customers. By leveraging these advantages, Mibanco will be able to rise above their competition and help to “eliminate exclusions” in the Peruvian microinsurance segment.

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2 MICROBANKING BULLETIN, Issue 15, Autumn 2007, pg. 22
3 Mibanco has identified the elimination of exclusions as one of their strategic goals. (Interview with Jorge Aurich)
Our recommendations to Mibanco are the following:

- Slow down the product release schedule to allow for more product-specific training of staff and customers. Correctly matching products with customers is essential to the long-term sustainability of microinsurance.
- Become engaged with the microinsurance community. Go to conferences and talk with other companies who are trying to become involved in this same segment.
- Partner with Protecta and leverage the two groups’ combined skills/resources to penetrate the microinsurance market.
- Be mindful of potential competition.
- With low margins/high administrative costs, Mibanco needs to utilize existing (credit agents) or non-traditional distribution channels to augment these costs. Incenting these distribution channels to sell microinsurance policies is key. Introducing new agents specifically to sell insurance may undermine Mibanco’s competitive advantage.

**Introduction/Challenge**

**Mibanco and Microinsurance**

ACP, Mibanco’s parent company, is a company with a social mission that defines poverty as a collection of exclusions; to eliminate these, ACP has systematically created a portfolio of companies, each of which targets a specific exclusion. With the largest customer base, the second largest provider of micro business loans by dollar amount and the fastest growing market share in micro business loans, Mibanco has positioned itself to be a dominant force in the emerging Peruvian microinsurance market. Mibanco will be able to maintain its position and make significant progress in expanding its role by leveraging its office network and, potentially more important, its existing client base to become the lender and insurer of choice for microentrepreneurs in Peru. With 38 microfinance institutions in Peru, Mibanco will need to take advantage of these existing structures in order to make their goal a success. Mibanco’s vision is to “eliminate exclusions” by offering products that satisfy the needs of all the people in Peru who have previously been overlooked by other microcredit lenders. By satisfying these needs, Mibanco hopes to become the preferred lender and insurer of all microentrepreneurs.

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4 Mibanco, Peruvian Bank Superintendent
**Strategic vision for microinsurance**

There are a number of reasons why Mibanco would want to diversify into the microinsurance market, including an opportunity to meet customer needs, diversify income sources, improve profitability, deepen outreach into the community, bolster customer loyalty, etc. (Churchill, 2007) As Mibanco rolls out its insurance products, they should be careful to assess each new product against these criteria, and ensure that it fits within the strategic vision of the company at large. Ongoing analysis should review any new product offerings to ensure that they are aligned with Mibanco’s strengths and long-term goals: Mibanco should be able to identify the strategic drivers for the introduction of any new product and any competitive advantages.

As mentioned above, Mibanco seeks to eliminate exclusions and offer credit and insurance to those who have previously been overlooked. In meeting the needs of these potential customers, Mibanco has created a plan to offer a wide variety of insurance products that have been and will be rolled out within a short time span in order to capture market share. As Mibanco expands their microinsurance offerings there are a number of strategic decisions that need to be made to help shape their product offerings, timeline of product rollout, targeted customers, etc.

**Key Decisions for Mibanco**

One of the main decisions that Mibanco needs to make is the decision of whether to partner with an outside company for insurance product design or to build this capacity in-house. Two main components behind this decision are the company’s credibility as well as its ability to offer continuity to their clients. Mibanco is a market leader within Peru and has maintained long-standing relationships with its clientele. As a result of these interactions, Mibanco will be able to build its credibility not only with current clients but also with future customers. However, a trusted partner with experience in insurance will be able to design insurance products that are applicable to Mibanco’s target sector better than they can do on its own because of Mibanco’s lack of knowledge in this space. Once Mibanco has gained experience in this industry segment, it could decide to become independent. Building a brand name for Mibanco as a trusted provider of microinsurance for the microentrepreneurs will bring customers in the door of the bank. Offering a diverse product line that has appeal to all types of clients will increase the appeal of the bank. Finally, taking the time needed to help these customers select the right product that suits their needs will be crucial to the success of attracting new clients and providing them with microinsurance. The risk of customer back-lash from poorly designed products that are foisted on those who don’t need them is a very real threat that Mibanco should keep in mind. As such, we recommend
that Mibanco should first establish a strong partnership with an insurance company so that it can bring insurance products to their target market efficiently.

The second component of the decision to partner or to build competency is continuity. Mibanco must keep in mind that they are working in a segment that is in its infancy. While they are still working on their implementation strategy for their insurance products, it is crucial to keep the long term strategy in mind. Mibanco needs to build a strong foundation for this business and in doing so must determine if long-term they will be able to sustain the needs of their customers without outside support. The relationship that Mibanco has with Protecta, through the parent company ACP, could be developed and expanded as the microinsurance market expands. Through this relationship, both organizations hold complementary skills that will assist the other: Mibanco has its network of branches, agents and customers while Protecta has the skill and knowledge of insurance to help design products and underwrite the insurance policies. This is a huge strategic advantage that Mibanco needs to leverage for the long term in order to reach their ultimate goals. The fact that Mibanco and Protecta are both subsidiaries of ACP also provide significant opportunities for synergies and the exploration of common strategic goals. Therefore, we recommend that Mibanco seek out this partnership with Protecta.

Beyond this decision, Mibanco’s strategy should focus on long-term results through long-term relationships with their clients. By building trust with their clients, Mibanco sets the stage for long term results. This is by no means an easy task and it takes a long time to do, but Mibanco already seems to be working towards this end.

**Competitive Landscape & Differentiation**

Although Mibanco currently believes that the microinsurance market is new and that there are not many competitors, they must be mindful of other companies, banks and NGO’s that are active in this space. The competitive marketplace is potentially quite large, with 38 active MFIs in Peru all seeking new customers. For example, “one of Peru’s largest micro lenders, Banco del Trabajo, is attracting new customers and building relationships with current ones ...(by) making strategic alliances with some of Peru’s largest retailers, including construction supply companies, (and) offering specialized credit products to finance the purchase of building materials for home and business use. Meanwhile, they are moving into the microenterprise market with small, working capital loans targeted specifically at female
microentrepreneurs.”\textsuperscript{5} Although, Banco del Trabajo is not regarded as competition by Mibanco, their efforts may disrupt Mibanco’s dominance in the micro lending and insurance segments.

Also, the Peruvian insurance provider InVita has recently partnered with Pro Mujer Peru, a Peruvian MFI, and has started offering the least expensive life insurance policy in Peru.\textsuperscript{6} This partnership was also not thought of as competition by Mibanco. Though the partnership may be considered small to Mibanco, these competitor’s actions will eventually hurt Mibanco’s bottom line and market share. By understanding their competition’s offerings and acknowledging that other MFIs are competition, Mibanco will be able to foresee and therefore minimize the effect of their competitor’s actions and reduce the number of potentially lost customers.

A helpful tool to think through these issues is the SWOT Analysis framework. In the SWOT Analysis you identify the Strengths, Weaknesses, Opportunities and Threats (SWOT) to the current strategic position of the company that you analyzing. Here is a diagram of our understanding of Mibanco’s strategic position:

\begin{itemize}
\item \textbf{STRENGTHS}
  \begin{itemize}
  \item Leading microfinance institution
  \item Existing network of branches/agents
  \item Largest existing client base
  \item Dominant reputation
  \end{itemize}
\item \textbf{WEAKNESSES}
  \begin{itemize}
  \item Lack of insurance experience
  \item Not engaged with microinsurance community
  \item Need to educate customers on insurance
  \end{itemize}
\item \textbf{OPPORTUNITIES}
  \begin{itemize}
  \item Large potential market
  \item First mover advantage
  \item \textbf{COMPETITION}
  Mibanco can create the market
  Educate the customers
  \end{itemize}
\item \textbf{THREATS}
  \begin{itemize}
  \item 38 MFIs in Peru plus other NGO’s, insurance companies, etc.
  \item Product design/relevance for target market
  \item Bad word-of-mouth “advertising”
  \end{itemize}
\end{itemize}

\textsuperscript{5} MICROBANKING BULLETIN, Issue 15, Autumn 2007 pg. 26
**Product Definition**
The highest hurdle for a micro-insurance scheme is how to properly define the product portfolio in such a way so as to meet the needs of the client base. Mibanco is very well positioned to do this properly because of their extensive experience in microenterprise. Below we discuss some of the areas where special care is necessary to ensure success.

**Timeline/Sequence**
There are two dominant strategies to optimize micro-insurance product introduction which relate directly to the key trade-off in launching a family of micro-insurance products—whether to meet the insured’s or the insurer’s needs first.

1. The first strategy, advocated by most micro-insurance consulting firms, is to launch insurance products in such a way so that the insured’s needs are met. This means that, for example, accident insurance should be launched before life insurance, since the immediate need for the insured is to receive care. The value of these types of insurance products is readily apparent to the insured parties, and therefore they have a higher adoption rate. Introducing these products first allows the insurer to educate their clients regarding insurance and have an easier time selling the subsequent products. The downside of this strategy is that these products are usually the hardest to implement, as well as the most costly.

2. The second strategy is to first launch insurance products that are the easiest to implement by the insurer, such as life insurance, and then follow with more complicated products like health insurance. This approach is the practical one advocated by most case writers who have had experience in launching micro-insurance. This method is actually harder on the insurer since ease of implementation and apparent value to the insured are at exact opposite ends of the product spectrum. Products like life insurance are hard to sell to micro-entrepreneurs because their value is not apparent, and this initial hurdle tends to then stun the education of potential clients regarding insurance. The result is that insurance remains an intangible concept for a longer period of time and the insurer spends more resources in educating the customer than under the previous strategy.

Mibanco is currently pursuing the first strategy, which we believe to be the correct approach. This launch schedule will allow clients to get used to the concept of insurance incrementally while the insurer gains their trust since they are addressing the client’s most pressing needs first. The challenge that must
be addressed when implementing this strategy is the timing of the subsequent product offerings as well as the potential cannibalization of one product by another.

In this first regard, the timing of the products, we recommend that gradual launches are the best strategy to follow. When launching a new insurance product, a key challenge has been the education of the insurer’s staff who, as gatekeepers, can dictate the product’s success or failure. It is highly recommended that the staff be told of the launch schedule for products as soon as possible and have the insurer develop a training program for each product that is to be launched. The staff should be trained for each product separately 2-3 weeks before the product is launched. This will give them time to discuss the product among themselves and get used to the new ideas. They also can then start informing clients that a change is about to occur, so when the change is implemented it does not come as a shock.\(^7\) Breaking up the training sessions by product will ensure that sufficient emphasis is placed on making sure the selling staff is comfortable with the new product, since experience has been that if they are not well informed on all the product’s intricacies, the staff will rather not sell the product at all over risk not answering a question correctly.

The second challenge is the potential cannibalization of a product by a new one. This is inevitable when following a launch strategy where the apparent needs of the insured are incrementally met according to their perceived value. As new products are introduced, they might begin to infringe on other product’s coverage. If this is the case, we recommend the obsolete product should be retired so as to maintain product line simplicity and make sure that the staff is not confused as to what product they should sell to a client looking for a particular coverage.

The third and final challenge addressed is the launch timing of the different insurance products that will eventually make up the portfolio. Industry reports all agree that an aggressive launch schedule is very risky to pursue, especially when the clients are not knowledgeable on the concept of insurance itself, which is the situation in Peru (CGAP Working Group on Microinsurance), (Brown & Churchill, 1999). We recommend that products be launched in a staggered schedule, with enough time given for both the bank’s staff and the clients to understand the launched product and decide whether or not to invest in it. By launching products too close together, the learning curve for a particular product is jeopardized by a new learning curve invading the space and true mastery will not be achieved within a reasonable time period.

\(^7\) CGAP Working Group on Microinsurance, Case Study No. 11
Pricing
One of the hardest challenges for MFIs looking to go into micro-insurance is the pricing of products. Accurate pricing of premiums will dictate whether the insurer will be profitable and the insured parties will receive the services they have signed up for.

In micro-insurance, much more so than in traditional insurance, transparent and straight-forward pricing schemes are imperative. Different premiums for different customers are generally confusing so it is the general consensus of the microinsurance industry to focus on charging the same price to all customers of a given product, regardless of their individual risk profiles. This ensures that the pricing is perceived as ‘fair’ to the micro-entrepreneurs being insured and also offers up simplicity to the agents collecting the monthly premiums.

Premiums should also be affordable to all clients. Since product portfolio diversification ensures that different products target different groups pricing can be optimized to the target consumer. The premiums charged should take into account the different risks associated with each product but also make use of the insurer’s capability to pool risk across all products to ensure affordable premiums overall.

Also, client sensitivity relative to pricing should be measured as best as possible. For example, if interviews and focus groups define the average client wanted a premium of $1 for $1,000 coverage but Mibanco can supply $750 coverage for $1 or $1,000 coverage for $1.25—which is best? Thinking about pricing in ranges versus absolute numbers can help micro-insurers better understand their clients and optimize their profitability. (CGAP Working Group on Microinsurance)

Structure
Life insurance can be difficult to design, since there are a great number of variables that the insurer must choose when deciding what the end product will look like. In the case of micro-insurance, this is an even greater challenge since the offering needs to be as simple as possible but also as comprehensive as possible.

One of the key misconceptions around micro life insurance, aside from the term coverage, is the question of who is actually ensured. For most of the cases we looked at, a common request was to extend life insurance coverage outside the borrower and their spouse or partner to other family members or dependents. This makes the product easier to sell since the odds of someone within the immediate family dying within the insurance term are greater than the odds of the borrower dying. This
type of extended life insurance product would work well with Mibanco’s reputation of protecting their clients and reinforces their image of a partner to the micro-entrepreneurs they serve.

The obvious setbacks in extending coverage are the challenge of calculating a payout for the death of a non-working member of the borrower’s family and how to manage the instances where one dependent may be claimed by multiple borrowers. Calculation of the payout amount is a judgment call by the MFI, since the deceased’s value cannot be explicitly calculated. A general structure can be followed where the payout increases with potential to add value to the business, so that children and the elderly receive the lowest payout. The troubles when one individual is claimed by multiple borrowers are more of an operational dilemma than anything else. Mibanco will need to understand whether they are okay with allowing multiple coverage of the same individual and analyze the potential risk of this decision to profitability, moral hazard and overall insurance portfolio risk.

Another issue that must be dealt with regarding the structure of the offering is if any exclusion for poor health or non-accidental death is to be included. We recommend that no such exclusions should be part of the product design, since this goes against the idea of simplicity in developing the product. To guard against moral hazard, a short waiting period (one month) should be imposed at the beginning of the insurance coverage, where any non-accidental deaths are not covered. This waiting period is to be supplemented with a grace period, of the same length, at the end of the scheduled term so that the insured receives coverage for the true life of the agreed term.

Aside from these design issues, Mibanco should also consider the nature of their differentiation within the micro-insurance industry. The greatest strategic advantage Mibanco has at this time is their established network of agents with experience in the micro-entrepreneur sector. By leveraging this knowledge in the insurance space, Mibanco’s advantage over any existing or incoming competitors is evident and massive. This is the core competitive advantage that Mibanco must utilize to become a market leader within the micro-insurance sector in Peru, as they build insurance capabilities off of their core credit products. If any action is taken to compromise this advantage, such as decoupling of the credit and insurance sales, Mibanco’s advantage will disappear and competitors will be able to capture the market. We recommend that if any action is proposed that will compromise this advantage, Mibanco should perform a full analysis of the potential outcomes.
**Product Delivery Issues**

Our research and observations have identified a few critical areas which merit special consideration as Mibanco develops their insurance product rollout strategy. Once the structure of the product has been defined, additional planning around the sales process and the product support and maintenance phases may be required.

**Sales**

Each component of the sales process (sales training, incentives, customer segmentation, and consumer education) is developed in further detail below, but our observations suggest that additional time around agent and consumer education is needed before a successful product rollout can be put into effect.

**Training of Agents and MACs**

The successful training of the insurance sales force will be critical for rapid market adoption of the new product line. Unless agents and MACs understand the purpose of the products and the differences between the offerings, and can provide a compelling reason to potential customers as to why they should invest in this ‘new’ concept, the insurance line will necessarily fail. In Mibanco’s two-part sales strategy, where the agents make the contacts and the MACs execute the sale, both parties are vital and must be appropriately trained.

Despite the recent training initiative for MACs, discussions with recent graduates suggest that they were overwhelmed by information and did not absorb the basic concepts of insurance and the Mibanco product offering. This lack of understanding is reinforced by the influx of calls from agencies with questions about product information and how to sell them. We commend the Mibanco team for making rapid adjustments to the training strategy since the time of our visit in March, but propose that further changes are necessary.

We recommend that the training strategy for MACs, as well as for agents, be revised to a multi-phase strategy. Initially, trainees must understand the concept of insurance, and its general benefits and drawbacks. Secondly, product-specific training should be supplemented with in-person refresher courses on new products as they become available. This may require a significant departure from the current training plan and budget, but proper training of MACs and Agents are perhaps the single most important vehicle for successful product sales and long term value. As Mibanco has proposed, summary sheets identifying the characteristics (including target customers) of each product should be made.
available well in advance of product rollout to serve as reference material. As already implemented, an expert should be available via telephone to answer questions about product details. To deal with the inherent cost issues of training (or re-training) employees, remote or regionally centered courses may be considered as an option. The budgetary restrictions on further training initiatives are valid concerns, but we maintain that without additional training, the success of the project is at risk.

A significant portion of the training process should be centered on customer and product segmentation. An eight-product rollout is very ambitious and can easily be overwhelming to the marketplace. To sell successfully, MACs and agents must be able to quickly identify which products are suitable for a specific customer or customer segment. This idea is further developed below.

**Agent Incentives**
In order to encourage agents to sell insurance, the proper incentives need to be established. Although Mibanco management suggested that agents would be telling potential customers about the new offerings and encouraging them to come to the branches to buy the relevant products, during our time in the field the agents did not once mention insurance products.

The relationship between agents and current customers represents one of the strongest competitive advantages Mibanco holds in the microinsurance space. In order to take advantage of this positioning, the agents must be willing to sell the new product line. This requires that they are informed about and comfortable with the product details, and that they are incentivized to sell them. The reliance on MACs to sell the policies adds an intermediate step to the process and reduces the risk of a sale.

We recommend that Mibanco investigate further the incentive and ‘reward point’ program currently in place, and ensure that the incentives being offered are the same incentives that will encourage the agents to sell the products. Other institutions have learned, for example, that in some cases where agent fraud is a concern, compulsory insurance is more beneficial than voluntary. Incentives are a powerful force in the selling process, and their influence should not be underestimated.

**Customer Segmentation and Education**
The successful sale of an insurance product requires not only that the sales force be trained in the details of the various products, but also that the products are defined for specific customer needs and that the customer is educated about the characteristics of a given product.
In order to increase the chance of conversion of a potential customer, the seller needs to be equipped to suggest a targeted product. Proposing the entire product portfolio will overwhelm a customer and likely result in a lost sale. Conversely, if a customer purchases the wrong product for their needs, or is confused about the product they have purchased, the result will be an unhappy – and perhaps lost – customer. Consider the example of Banco del Trabajo, who, despite a high volume of initial sales for their accident insurance product, quickly lost their position due to customer backlash. Customers did not understand the products they had purchased and therefore felt cheated by the bank (Aurich, 2008).

Mibanco’s long history with the target customer segment positions it extremely well to take advantage of the microinsurance opportunity. Through a computer-based questionnaire, MACs or other sellers can identify which products a given customer is eligible and suited for, including limits or other criteria. Once a few customers are well educated about the products available for their particular segment, the MiAmigo program can be implemented to leverage the power of social networks. For example, a customer who refers a peer to purchase an insurance policy can be rewarded according to similar structures as those currently in place for credit.

**Product Support and Maintenance**

**Term and Policy Renewal of the Coverage**

Many microinsurance products are short-term in nature (12 months or less) because it is easier and less risky for insurers to deliver them. If long term insurance is considered, it must entail more comprehensive risk measurements and there should be enough margins built in the rates to compensate for any error in interest rates and mortality assumptions. (17)

If insurance is combined with a loan, the terms should be the same as the loan as it enables easy renewal. If a loan needs renewal, the insurance coverage can be continued for a few weeks more while the loan is renewed so that there is no additional paperwork for the insurance. However, if the term of the insurance policy is significantly different from the loan term, there is high likelihood of lapses and collection will be a problem as was the case with Tata-AIG in India.8

Another way to cut down on costs would be to have automatic renewal for policyholders below a certain age as long as they continue paying their premiums. Such renewable terms combine both the benefits of short and long-term insurance coverage by allowing the insurer to adjust the rates while also

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8 CGAP Working Group on Microinsurance Good and Bad Practices, Case Study No. 14
providing continued coverage for the policy holder without additional paperwork and related fees. When providing renewable term insurance policies one should be aware of the fact that there might be adverse selection as people most likely to need insurance will renew them. As such, this should be factored in to the pricing for the policies.

As local cultures and conditions differ in various parts of the world, it is important to design products keeping local preferences in mind. Some regions might prefer longer term products (1 year term) as was seen in Uganda through the experience of Microcare whereas the opposite was true in India as was learnt from the experience of VimoSEWA. However, short-term products are more costly to administer and they result in less renewals as the benefits of insurance are harder to demonstrate with a shorter cycle. (17)

**Premium Payment Frequency**

It is important to determine when and how frequently the premium payments will be collected. While determining this, it is beneficial to understand when micro entrepreneurs earn their money because that is when they will have money to pay for their premiums. Also, very frequent payment collection (weekly for instance) can be too costly. Thus, it might make sense to differentiate customers into segments that will pay their premiums on a monthly, quarterly, semi-annual or an annual basis. (Brown & Churchill, 1999)

Also, when determining payment schedules, it is important to understand the time value of money. Getting upfront premium payments for a month or a quarter allows the insurer to invest the premiums, the returns of which can be used to keep the cost of insurance down partially. Upfront payments also reduce problems related to lapsed payments. From the insurer’s perspective, a lapsed payment might be financially beneficial since the insurer no longer has the obligation to honor claims while having already received some of the premiums from the policyholder. However, if all policyholders lapse on their payments, this will result in the breakdown of the insurance program. As such, it is important to make sure the product offerings satisfy customer needs. (Roth & Athreye, 2005)

**Payment Collection Mechanisms**

There are several ways in which to collect premium payments:

1. One of the easiest ways to collect premiums is to let the insurance piggy back on a microfinance loan and collect premiums when they make their interest payments on their loans. This reduces costs and takes advantage of the strength of the existing relationship between agents and customers.
2. If a certain group of people belong to a cooperative or some such organization, the insurer could collect the premiums from the cooperative directly, thus cutting down on costs for individual collection.

3. Another approach would be to deduct the premiums from the savings account of the policy holders. In this approach, care should be taken to ensure that policyholders are aware that money will be deducted. An innovative approach that VimoSEWA has used successfully is asking clients to establish fixed deposit accounts and using the interest earnings to pay for their premiums. (Roth & Athreye, 2005)

As a case study example, in Mexico, the community bank of FinComun partnered with the largest and one of the most recognized Mexican brands, the baking company called Grupo Bimbo, to deliver microloans to microentrepreneurs. (Ahedo, 2008) Grupo Bimbo derived some 80% of its revenues from small mom-and-pop stores where 20% of these clients regularly asked them credit. Bimbo had some informal programs to provide such credit. FinComun needed a cost-effective way to reach these microentrepreneurs to offer credit. Thus, the partnership was formed as there were immediate benefits that each organization could leverage off of one another. Thus, for an institution with limited cash such as a MFI, it is important to look beyond the traditional way of doing things and find innovative solutions to their unique problems.

**Premium Amounts**

For general life insurance policies, it is standard practice to charge different premium payments from policyholders based on their sex and age. In the case of microinsurance, if it is administratively and culturally easy to segment people into broad categories based on age, then the insurer could have two or three different price points. However, if it is not easy to segment the population in this way and will cost more than the benefits gained, then it is prudent to have single pricing (CGAP Working Group on Microinsurance). In that case, however, the insurer should try to actively recruit more customers and make sure there are enough new policyholders so that they are diversified in terms of their population and not carrying too much risk. Also, it is important to stress that payment collection should be done regularly and that payment default is continually managed.

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9 http://www.ethicalcorp.com/content.asp?ContentID=4768
Next Steps and Conclusions
The next steps for Mibanco in terms of their strategy for the microinsurance business are:

1. Attend microinsurance conventions. The Fourth Annual Microinsurance Convention is taking place November 5-7, 2008 in Cartagena, Colombia. More information can be found here: http://www.munichre-foundation.org/StiftungsWebsite/Projects/Microinsurance/2008Microinsurance/default.htm Registration for this event starts July 1, 2008.

2. Strengthen the offering with a partnership with a leading insurance company (Protecta, for example) to combine the product knowledge of the insurance company with the strong customer base that Mibanco provides. This will let the two companies leverage their unique strengths, allow Mibanco to establish their presence in the insurance industry quickly and provide better value for your customers. It must be mentioned here that both the companies must be committed to the partnership in order for the relationship to succeed.

3. Focus on educating staff and customers about insurance and about the various insurance products that Mibanco wants to bring to market. Mibanco should invest in training and education throughout the year as microinsurance is a fairly new concept for most of their customers and employees.

4. Once the insurance product is launched, establish a system to obtain feedback from clients so that you know how the product is being perceived by them and whether it is serving any of their needs.

5. Microinsurance is a non-traditional market and business. Therefore, look for non-traditional channels (e.g. FinComun and Bimbo partnership) to manage the high cost of underwriting insurance products, to reach your clientele and to understand your customer’s needs in order to beat the competition.

The microinsurance sector is expected to grow strongly in the next few years in Latin America and especially in Peru, where the economy is heavily driven by microentrepreneurs (42% of GDP and 99% of businesses are driven by microentrepreneurs). As such, microinsurance promises to be an attractive industry to get into, especially for institutions which already have a strong network in the community and expertise in delivering financial products. Thus, Mibanco is in a strong position to establish its dominance in this market. However, as it pushes itself into this industry, it should keep in mind the lessons learnt from the various organizations around the world that we have outlined through the various case studies. The best players in this segment understand the needs of the clients and respond to them in a speedy manner. It provides them convenient financial solutions along with ongoing
education and is able to establish a close relationship with the clients. As competition increases in this sector, these are the factors that will distinguish the winner from the loser. Mibanco seems well-placed to be a winner, if it is able to leverage its existing strength of the large customer base along with a strong partnership with an insurance company that knows the insurance business.
Appendix
Craig A. Churchill’s recommendations stated during the 10th MFC Conference of Microfinance Institutions in Sofia, Bulgaria were as follows:

1. Pilot test before rollout
2. Avoid changing too many things at once
3. Avoid product proliferation
4. Have a long-term plan for developing a coherent product menu
5. Take stock of the effect of new products on clients and staff before moving forward with the next set of changes
6. Make sound decisions based on good information: product performance tracking, realistic projections...
7. Monitor cross utilization by customers
8. Consider partnerships
9. Provide staff training, and then provide some more
10. Communicate, communicate, communicate
Web Sources (WS)


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