Emerging Insight #:108
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Source: Allianz Life Indonesia

What makes the difference?

Almost all microfinance institutions start with mandatory credit-life products, and many stop there. Is it possible to sell voluntary products to borrowers once they’ve had some experience with mandatory credit life? The results from Allianz Life Indonesia suggest it is.

From November 2013 to December 2014, Allianz Life Indonesia ran a small experiment to upsell a range of voluntary products (including accident, fire and hospital cash products) to borrowers who already had mandatory credit life insurance. It set a target of 5 per cent conversion and succeeded.

However, sales differed significantly between the four pilot partners. High conversion rates, of around 16 and 25 per cent, were achieved with two microfinance institutions (MFIs), with the other two MFIs experiencing low take up.

<table>
<thead>
<tr>
<th>Pilot performance indicators</th>
<th>BPR BDAS Surabaya</th>
<th>BPR BDAL Bekasi</th>
<th>KKBS Cooperative Jakarta</th>
<th>KAKR Cooperative Tangerang</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reachable loan customers (Dec 2013)</td>
<td>379</td>
<td>1,063</td>
<td>145</td>
<td>7,681</td>
<td>9,268</td>
</tr>
<tr>
<td>Reachable loan customers (Dec 2014)</td>
<td>967</td>
<td>1,424</td>
<td>839</td>
<td>9,246</td>
<td>12,476</td>
</tr>
<tr>
<td>Voluntary product sales</td>
<td>152</td>
<td>23</td>
<td>212</td>
<td>231</td>
<td>618</td>
</tr>
<tr>
<td>Conversion ratio</td>
<td>15.7%</td>
<td>1.6%</td>
<td>25.3%</td>
<td>2.5%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

Data as per 31 December 2014

What lies behind these differences?

One of the most important factors seems to be the size of the MFI. Perhaps counter intuitively, the pilot was far more successful among the two smallest institutions. Decision-making and operational adjustments were quicker and it was easier to find a shared vision with smaller MFIs.

Another important factor was clients’ relationship with staff. The first ever client of the product explained her purchase in this way: “I am fine paying 25,000 rupiah for a product that is offered to me by the same people that have so far been very helpful with my loan applications and collection of the installment payments.”

However, MFIs structure their front line staff’s time in different ways, with a big impact on their ability to explain and sell the product. The field staff of the two larger MFIs worked under very tight schedules, visiting up to eight different locations a day, making it very difficult to fit in any further task. Staff from the smaller MFIs worked under less pressure and had more time to devote to insurance sales.

These findings flag likely challenges for selling voluntary insurance through larger institutions. Nonetheless, Allianz believes that once it has refined the model and is able to demonstrate success with smaller institutions, it will be easier to convince larger MFIs to implement the operational changes needed to achieve higher conversion rates.
Find out more in Allianz Life Indonesia's Learning Journey [1].

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Links: