Launching of microinsurance products and capacity-building -- INISER

About the Project

Project Name: Launching of microinsurance products and capacity-building -- INISER
Type of Facility Project: Capacity building project
Country of Operation: Nicaragua
Region: Latin America and the Caribbean
Sub Topics: Financial institutions, Sales, Product development, Partnerships, Improving value, Demand, Value-added services, Life
Type of Risk Carrier: Regulated insurance company
Type of Distribution Channel: Microfinance institution

Organizational Overview

INISER (Instituto Nicaragüense de Seguros y Reaseguros), Nicaragua?"s oldest insurance company, is a government owned company with 47% of the market share in the country has embarked on an innovative effort to extend insurance products to the poorer segments of its population. INISER is wholly owned by the government and shares with it a strong social mission to offer inclusive services for all segments of the population.

Project Description

In 2009, INISER decided that, as part of its strategy and institutional vision, it would expand its palette of insurance products to Nicaragua?"s lower income population with the aim of offering risk management products to this the country?"s most vulnerable segment. To achieve this objective, INISER will implement a microinsurance programme aimed at making access to insurance more flexible by offering products adapted to the target population, making processes more flexible and developing alternative marketing channels, including microfinance institutions (MFIs), cooperatives, shops, civil associations and municipal organizations.

The institution formed a microinsurance team composed of five specialists in different fields: a fulltime project coordinator employed by the programme, an agricultural engineer to coordinate agricultural insurance, a corporate business manager, an actuary, and a graduate in data processing systems from INISER. The latter provides ad hoc support to the coordinator at the internal level.

INISER submitted to the ILO a request for technical assistance, identifying barriers to the offering of microinsurance in Nicaragua as lack of strategies, of a product design adapted to the needs of the target market, absence of an adequate technological system for the monitoring and management of policy-issuing processes and monitoring of premium collection and claims, unavailability of utilizable operative marketing channels and the organizational structure.

INISER obtained assistance from the ILO?"s Microinsurance Innovation Facility for the development of a strategic business and action plan to provide a framework for a five-year microinsurance programme.

The organization will implement a microinsurance programme in phases during the first five years. These phases are aimed at the improvement of the organization?"s capacity to handle microinsurance and the gradual introduction of products and processes that satisfy the demand of the target segment, at attractive prices and relying on simple processes. The initial phases will be restricted to a few products offered through a limited number of channels and basically manual processes. In the course of the five years, it will be possible to offer five microinsurance products to more than 110,000 people via a broad network of distribution and payment channels, including MFIs, cooperatives, supermarkets, associations and municipalities, among others. Similarly, the development of an IT marketing platform is an important investment that will facilitate the expansion of the programme, by enabling INISER to link into a broad microinsurance distribution and direct sales network in the future.

The first phase will include the development and implementation of internal training courses within INISER and in the channel organizations, as well as for the target clients themselves. This stage also envisages the design and implementation of promotional materials and a mass promotion campaign in later stages of the programme. The initial phase will also include the development of operational and data processes to support the pilot project with one or two of the country?"s MFIs in specific zones. The pilot project will rely on manual and semi-manual processes. Although manual, these processes should solve potential operational problems, including those related to the claims process, since the end-client will mainly evaluate the service received at times of direct contact. The results of the operational implementation of the pilot phase will serve as input for the implementation of a more suitable automatic data processing solution with a service-oriented architecture. This solution will provide a platform through which INISER can communicate with all the programme?"s internal and external players and meet the demand for new products that are more efficient with less costly administration. This platform will not only benefit the microinsurance programme, but also the company?"s entire range of activities.

The pilot project?"s performance during the first year will determine the adjustments to the product and the programme needed, and define the process for introducing further products. During the pilot phase, fundraising for implementation of the programme will continue, especially for the very considerable...
investment in systems that is required. The company will have to mitigate internal and external risks by means of mitigation strategies incorporating aspects related to policy, operations and systems, product design, financial aspects, training, and partnerships with third parties. INISER will continue implementing the project, setting clear policies for microinsurance business, raising the funding needed for future development and maintaining close relations with third parties involved in the programme through each phase of development.

Beneficiaries

The project targets Nicaragua’s lower income population, with the aim of offering risk management products to this the country’s most vulnerable segment.

Learning Agenda

INISER’s learning agenda involved questions around products, training, data processing and partnerships.

Project Status

Project Updates

As of May 2010

Preparatory work for the technical assistance project for INISER began in October 2009. The organization selected with the technical support of the Microinsurance Innovation Facility was EA Consultants, which had been presented in July 2009. The proposal in general consisted of support to enable INISER to establish strategic business and action plans for the development of the organization’s microinsurance sector.

The methodology presented included a thorough analysis of: the market potential for INISER microinsurance; the appropriate partner agents for marketing these products; and the technological platform required for its implementation. This first consultation did not include implementation components such as the design of brochures, programming of data processing modules or development of marketing materials; these will be planned for in the second stage as part of the organization’s capacity-building in these areas. The final business plan and action plan as initial outcomes of the project will make it possible to identify the requirements for the second stage of project implementation.

A fellow was assigned to the organization to work with INISER and the consulting firm on the following activities:

- Identification of marketing channels
  
The main effort focused on studying the feasibility of working with cooperatives and MFIs. However, alternative channels such as services and cell phones were considered, especially for the payment of fees by clients without accounts with MFIs. This process included interviews with nine MFIs in Nicaragua, two cooperatives, two pharmacy chains, three businesses and supermarkets, as well as a mortuary service. Most of the interviews took place in Managua, focusing on institutions in the northern part of the country where INISER has several preliminary microinsurance initiatives.

- Market study
  
  A statistical review of information related to potential clients in Nicaragua was carried out, examining census data and other studies publically available. A study made by EA Consultants of a Nicaraguan Social Security Institute (INSS) pilot project involving the extension of public health insurance to the independent sector was exploited. This study included interviews of over 4,000 small business owners in the main market places of Managua. The purpose of this stage was to quantify the potential market and to develop several market segmentation hypotheses.

  Once the quantitative work was completed, the qualitative work began. The potential partner agents identified in the previous stage were enlisted to initiate interviews with their customers. Ten to twelve focus group interviews were held with groups of microbusiness owners who have or do not have accounts with MFIs, and with other low-resource groups, including domestic employees, female ?maquiladora? workers and others. EA Consultants implemented a methodology of focus group interviews adapted by EA Consultants to microinsurance from Microsave tools. The interviews included the presence of a person from the INISER microinsurance team to ensure that this person had the capacity to replicate the process in the future.

- Technology audit/data processing platform
  
  It was proposed to adopt the DT-PYMES methodology of the Institut Català de Tecnologia (ICT) for carrying out the technology diagnosis. The goal of this methodology is to provide a structured procedure for carrying out diagnoses of businesses of a general nature, complemented by specific diagnoses of the technological aspect, making it possible to identify the main problems and/or areas of opportunity within a business or project.

  The analysis focused on the stability of INISER’s current Oracle-based system and the feasibility of adapting this system to a microinsurance model that could be given to INISER partner agents to facilitate enrolments and premium payments.

  In the first phase it was found to be relevant to develop a simple easy-to-understand product that meets some of the concerns expressed by the target segment during the study. The product includes a gender focus, recognizing that women constitute a highly vulnerable segment and also express great concern about the consequences for their families of absences from work or disability. The product ?Familia Segura? for micro-businessmen and women is a death-risk insurance offering the policyholder debit balance benefits (of up to US$ 1,000), life insurance coverage (insured amount of US$ 1,890 including funeral expenses, supermarket vouchers and support in the form of cash) and also preventive health coverage in the form of an annual gynaecological exam and Pap test.
The price of the product is approximately US$ 2.15 a month (45.15 córdobas). The validation of the product through interviews revealed that the most appreciated components were the debit balance coverage, funeral expense coverage, and coverage in the form of supermarket vouchers. Development later on of additional products that meet the many needs of the target segment identified by the market study such as sickness, accident, primary health care, property and agricultural risk coverage is being considered.

As of April 2012

Once the INISER microinsurance strategic plan was completed, it was necessary to choose a distribution channel. In this regard, the study showed that the best channels might be MFIs, which have a high penetration level in the low-resource Nicaraguan population.

Before the second stage of the capacity development plan got under way, the INISER microinsurance team engaged in administrative and operational readjustments in addition to negotiations with the marketing channel, pending authorization from the regulatory authority, the SIBOIF (Superintendency of Banks and Other Financial Institutions). This authorization was received in May 2011, clearing the way for activities prior to the launch of the first microinsurance product in Nicaragua.

Finally, contacts with the Local Development Fund, Fondo de Desarrollo Local (FDL), which was the organization chosen as the strategic partner for implementing the product designed, culminated in an agreement for the implementation of the “Familia Segura” product. A cooperation agreement was signed defining objectives, scope, rights and obligations of each partner, and delimiting the marketing role of the partner agent. This agreement was formally signed in July 2011.

FDL is one of Nicaragua’s leading MFIs with around 58,000 active customers in 2011 and a per-customer loan average of US$ 966. The institution has been functioning since 1997 and today is one of the main sources of rural financing in Nicaragua, offering individual and group forms of credit over a broad geographical territory including urban and rural areas.

Similar agreements were signed with local health and mortuary service providers, highlighting the potential proximity to and identification with the client for both services. Similarly, with regard to the free call service via a call centre, the current agreement with the global provider of this service was extended to include INISER, setting the functions and costs of this service for the case of microinsurance beneficiaries.

Between June and August 2011, the microinsurance team carried out the following activities:

- Design and development of sales and marketing materials (insurance policy, posters, banners, stickers and brochures) in collaboration with FDL and service providers. These materials were formally delivered to the central offices of FDL for their later, systematic distribution according to the requirements of each branch office via internal request.
- Training within INISER for all managers, especially those connected with product-related operations. This activity made it possible to share the advances made during the pilot phase and, in turn, facilitate the service requirements and demands of various key sectors within INISER (accounting, accounts receivable and cash departments, marketing and IT, among others).
- Training of FDL personnel, consisting of training presentations to sales staff, operational personnel and branch office managers. The same was done for service providers including funeral homes, the medical facility and the call centre.
- Final signing of the manual of operations, agreed to by all concerned players within the company. In this manual, the majority of provisions related to operationalization and business are fixed, but some provisions are transitory, given the pilot nature of this stage in the life cycle of the project.
- Similarly, anticipating the addition of new products to the microinsurance portfolio, the manual includes outlines and procedures for the medium and long term, so that these products can be operationalized without constant revision of the manual.
- Computer configuration of the pilot product in the insurance software "Core?, comprehensive testing, and generation of basic reports for the administration of the product.

On 9 September 2011, the Familia Segura product was launched, ushering in the first phase of the pilot project. Various public awareness activities concerning the different benefits of the product were carried out, including:

- Sales staff (made up of loan officers from different FDL branches) joined talks on credit disbursements, including individual and solidarity credit and formal and ad hoc credit. At these talks, following the exposition on credit administration, the officers presented the benefits and characteristics of life microinsurance and explained how it can be acquired.
- Half-day educational fairs in conjunction with the various service providers (funeral homes, the Gynaecological Clinic and so on) at strategic target population entry points. This activity made it possible to approach potential clients so that they could become thoroughly familiar with the benefits of microinsurance and interact with providers concerning the quality of service.
- Educational talks on preventive health for interested women in the three branches of the marketing channel participating in the pilot phase. The talks are short and concentrate on knowing the risks and benefits of preventive health measures against the risk of contracting diseases of the reproductive apparatus, especially cervico-uterine cancer. It is worth pointing out that the impact of this benefit can be seen in the fact that 80% of total subscribers to Familia Segura are women.

The sales strategy took over the marketing channel’s solidarity group model applied to the granting of loans in order to capture the attention of this target segment, creating group pressure to awaken awareness of risk, and of acquiring microinsurance as a product that is voluntary and facilitated by the possibility of monthly payments.

The product launch was followed by the definition of performance indicators for monitoring purposes; the evaluation of functioning operational processes and data processing system option evaluation activities were pursued.

Between October 2011 and March 2012, as part of product launch activities, reports were prepared for the sales budget audit, internal INISER processes were formalized, and satisfaction surveys and product validation surveys were conducted.

The information obtained seven months after the launching of Familia Segura provided key elements for evaluating the product on the basis of qualitative and quantitative data with a view to adjusting marketing and strategy decisions. The aspects to be evaluated were: (a) financial performance indicators and (b) product acceptance results and customer satisfaction.
In the pilot phase of Familia Segura, the product was sold in three branches with a total of 7,055 clients. The clients with the highest acceptance rate are shopkeepers, producers and service-providers, representing 3,901 customers. As of March 2012, 1,611 policies had been sold, representing 41% of the target market. It was noted that the month of January was very difficult due to the illiquidity of clients. Of total policies sold, 316 (20%) were cancelled. These, 95% were cancelled in the first three months of operation for overdue payments. A total of 1,295 policies are in force as of March 2012.

With regard to the claims rate, at March 2012 there had been no deaths and the preventive health care benefit had been used by 35 clients (4%) out of 877 women's product clients. Activities implemented to increase utilization of the prevention component involved holding talks by litchen and INISER to create awareness about cervico-uterine cancer (350 women including clients and non-clients were trained).

The following were carried out as part of the product evaluation: (a) random surveys with 82 clients in FDL branches, (b) interviews of women clients who had used of the preventive care benefit, (c) six focus groups for the following segments: (i) women entitled to the preventive health benefit in the three branches, (ii) males who are current on payments, (iii) a focus group on clients whose policies were cancelled due to non-payment and (iv) interviews with FDL branch managers, operational personnel and loan officers.

Of the persons interviewed, 74% indicated knowing about the product (80% of men and 75% of women). Of the persons who indicated having knowledge about the product, 46% stated that they had been informed about: coverage, life insurance and the advantages and disadvantages it may present. 65% of women and 65% of men indicated that they had been offered the product. Of these, 90% indicated that it was the loan officer who had informed them about the product. 65% of people who had received information on the insurance went on to buy it.

Project Lessons

On products

Integration between the insurer and the MFIs requires the integration of systems that can be incorporated into the channel's activity and allow officers to concentrate on their main business activity. INISER has identified that in order to develop its business with FDL when implementing a voluntary product it is important to be able to rely on a system of insurance administration that offers the marketing channel a comprehensive view of integrated processes to avoid increasing the work flow registering policies and collecting premiums. INISER feels that the technology tools must be user-friendly and not cause bottle-necks at critical points, so that client service is prompt and the main business (administration of loans in the case of microfinance) is not made cumbersome.

Integrating different insurance products in an offer of credit within a MFI is part of the negotiation process with the distribution channel. INISER noted that another of the challenges that arose was to bundle the current microinsurance product with credit life insurance in order to obtain a mandatory portfolio of clients. FDL decided that the Familia Segura product would be supplementary and voluntary, since the channel has a mandatory credit life insurance with another insurance company. This led to some clients feeling they were being charged twice, although in reality, two separate insurance products are concerned. Correct information for clients will be of paramount importance in this process.

Working with a MFI makes it possible to identify funding mechanisms for voluntary products. Initially, the product was offered with the option of payments in 12 monthly instalments with a grace period of 30 days. In the first month, 139 policies were sold, of which 24% were cancelled for non-payment at the expiration of the grace period. In the second month, 203 policies were sold, of which 22% were cancelled for non-payment at the expiration of the grace period.

The strategy implemented was to finance 100% of the cost of the insurance, applied to the first disbursement, without interest, as a gesture of social support on the part of the channel. In the same way, the channel's cash offices worked with the programme to remind clients that they need to pay their microinsurance premium at the same time as they make their loan payment.

On the training of the branch

It is important to consider the timing of the training for the channel, in order that the information is fresh in employees' minds. Prior to the official launch, all staff were trained concerning the product, the promotional strategy (sales), preventive health, standards and processes. However, there were employees in the channel who did not remember processes and functions. This was not due to a lack of knowledge, but rather to a lack of follow-up and recapitulation of duties. INISER feels that it would be ideal to organize for the employees of the insurance company and the head of the marketing channel to go over standards and integral processes in each pilot branch no more than a week in advance. Similarly, if possible, a simulation (test environment) would help to validate the training process.

On the data processing system

Data processing systems need to be implemented, and input received from both the partner and the agent, in such a way that the systems may be adapted to the product and operations of the organizations. The data processing system within FDL was developed on a voluntary basis as part of its involvement in the project. This development was carried out by a service provider who, due to lack of knowledge of the rules of business and the absence of guidelines, developed a system that was highly parameterized and limited. Because it will require modifications and changes, revision of the budget has been requested. At present, INISER is considering offering the data processing system itself, being the proprietor and administrator of it and having the capacity to make the changes and modifications that may be required. These differences in IT development, together with two failed attempts, will delay the project by three months.

On the partnership between INISER and FDL

There are factors that INISER considers key for the success of its collaboration with its partner FDL. INISER notes that a partnership between a
MFI and an insurance company like the one it has could function if the following were developed:

- a suitable product confirmed by a joint study at an affordable price
- sharing of investment and effort
- skills acquisition and joint training
- mutual commitment to the end clients

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Links: