Learning Journey

CIC Insurance Group

CIC M-Bima

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Contents

Project Basics ........................................................................................................................................... 2
About the project ....................................................................................................................................... 2
Project Updates ......................................................................................................................................... 4
KPIs ............................................................................................................................................................ 4
What has happened? .................................................................................................................................. 5
Lessons ....................................................................................................................................................... 6
On marketing savings-linked insurance product sold through a retail distribution model .................. 10
On viability of retail distribution model .................................................................................................. 14
### Project Basics

#### About the project

**CIC Insurance Group** is the third largest insurance company in Kenya with a total premium volume of 6.7 Billion Kenyan shillings (KES), or US$ 78.8 million, in 2011. It is fully owned by approximately 1,562 cooperative societies and 3,875 individual members. CIC has a strategic focus on microinsurance and has a vision of becoming a household name for the microinsurance market in Kenya and the region. CIC ventured into microinsurance in 2001, piloting microcredit life insurance with KADET, a leading MFI. It later expanded distribution through Faulu Kenya, K-Rep development agency, Eclof Kenya, and Opportunity International (now Opportunity Kenya), among others.

CIC has introduced a new technology platform called M-Bima (mobile insurance in Kiswahili) to strengthen the scale and efficiency of its microinsurance operations. The platform uses a money transfer service such as M-PESA for the collection of premium. M-PESA is currently used by more than 15 million people in Kenya to store and transfer money. The M-Bima platform can be also used for customer relationship management functions such as checking account balance, sending reminders or educating clients through mobile phone applications and a call centre. In the future, the platform will allow direct sales for all microinsurance products.

The first product, launched in 2011, on the M-Bima platform was Jijenge Savings Plan. The product provides clients with a convenient and safe way to build savings. It is a 12-year endowment plan with monthly installments of minimum KES 600 for a minimum cover of KES 50,000. The product combines savings with life insurance. There is a 6-month waiting period for natural death, and no waiting period for accidental death. An exit benefit is available at the end of the third year with a surrender value of KES 20,000. Jijenge also has an option to provide the family with life cover for KES 5 per day. Clients can save on a daily basis using M-PESA and receive SMS reminders to stimulate savings.

M-Bima is marketed and distributed through organized networks of small shopkeepers, mobile money outlets and other large networks such as cooperatives and retail stores. Sales structure and processes are organized similarly to FMCG retail model. Promotions are carried out by conducting Market Activations. Distribution networks, distributors and agents play an active role in promotions and are incentivized to bring new customers as well as to ensure persistency of savings with Jijenge. The M-Bima distribution set up comprises of independent agent networks, distributors and outlet agents supported by a CIC sales support team headed by a National Sales Manager. This is a new distribution approach for CIC, compared to the partner-agent model used previously. Distributors have access to a menu-based information services protocol used by mobile phones to communicate with CIC system.

The project supported CIC to strengthen and monitor its marketing and evaluate its new distribution strategy.

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*Learning Journey: February 2014*
Some of the key challenges expected in the project are:

- **Persistency:** The sustainability of the product depends on creating incentives to save regularly, which is a challenge for a market with irregular cash flows. A comprehensive marketing strategy was developed to address this challenge.
- **Retail distribution model:** Success depends on the value proposition for retailers as well as the approach taken to select, train, incentivize and monitor sales force, which is managed by retail distribution networks.
- **Managing third parties:** CIC will partner with various mobile phone service providers, systems vendors, advertising agencies and community-based distributors; should the relationship with any third party fail, there is a risk of not delivering what was promised to the client.
- **Technology redundancy:** There is a risk of the technology being rendered obsolete due to the dynamic nature of the technology sector.

### Project Summary

<table>
<thead>
<tr>
<th><strong>Project name:</strong></th>
<th>CIC M-Bima -- CIC Insurance Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project start date:</strong></td>
<td>February 2012</td>
</tr>
<tr>
<td><strong>Duration:</strong></td>
<td>2 years</td>
</tr>
<tr>
<td><strong>Country:</strong></td>
<td>Kenya</td>
</tr>
<tr>
<td><strong>Product:</strong></td>
<td>Life and savings</td>
</tr>
</tbody>
</table>
**Project Updates**

**KPIs**

Compared to initial experience with Jijenge using multi-channel strategy (including CIC staff selling to their contacts), the results of the pilot are as follows:

<table>
<thead>
<tr>
<th>KPI</th>
<th>KPI description</th>
<th>Before pilot (11.2010–02.2013)</th>
<th>Pilot (03-06.2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New proposals</td>
<td>All proposals received</td>
<td>15,424</td>
<td>2,470</td>
</tr>
<tr>
<td>Conversion rate</td>
<td>Policies converted (activated) / new proposals received</td>
<td>50%</td>
<td>58%</td>
</tr>
<tr>
<td>Policies in force</td>
<td>All active policies (at the end of the period)</td>
<td>7,705</td>
<td>1,421</td>
</tr>
<tr>
<td>Persistency rate 2m</td>
<td>1 – (lapse rate 2m and cancellation/surrender rate)*</td>
<td>28%</td>
<td>48%</td>
</tr>
<tr>
<td>Arrears ratio 5%</td>
<td>share of premium in arrears &lt;=0.05 (at the end of the period)**</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>Mis-selling rate</td>
<td>policies with less than KES 600 (minimum monthly premium) / policies in force***</td>
<td>49%</td>
<td>73%</td>
</tr>
<tr>
<td>Agent productivity rate</td>
<td>New policies converted by agent per day</td>
<td>na</td>
<td>0.13</td>
</tr>
<tr>
<td>Payment ratio</td>
<td>Average payment / monthly premium</td>
<td>48%</td>
<td>30%</td>
</tr>
<tr>
<td>Claims ratio</td>
<td>Claims paid / premiums received</td>
<td>only few claims received</td>
<td></td>
</tr>
</tbody>
</table>

* Persistency rate as calculated here overestimates persistency for the pilot as period is short and policies from last two months did not have a chance to lapse. Lapse rate = Policies lapsed (policies in arrears > 2 months) during the period / [policies in force in the beginning of the period + converted policies during the period]; Cancellation/surrender rate= Policies cancelled/surrendered during the period / [policies in force in the beginning of the period + converted policies during the period]

** This underestimates persistency (especially in pilot data) as many policies are topped up when policyholder is reminded. Hence, actual persistency rate in the pilot is between the two indicators Arrears ratio and Persistency rate.

***Again, this overestimates mis-selling in the pilot as policies from last month do not need to be higher than KES 600.
What has happened?

Based on their initial experience, additional market research and business analysis, CIC developed a new marketing strategy for its M-Bima Jijenge Savings Plan. Product design remained the same, while promotion, distribution and customer care strategies were revised significantly to improve scale and persistency and to position the product differently, targeting it at good savers.

The strategy was pilot tested from March to June 2014 in two zones in Nairobi with 99 new outlets, mostly small shopkeepers involved in mobile money transactions.

CIC went a long way to improve the M-Bima Jijenge Savings Plan offering, but results of the pilot conducted from March-June 2013 in Nairobi were unsatisfactory. The results needed to make the offering work for CIC and clients were: persistency at 75 per cent, mis-selling at 15 per cent and agent productivity of at least 0.6 new policies sold per day (to offer a revenue of KES 5,000 per month, which is deemed to provide good value compared to alternatives). Unfortunately, client value is in fact very poor with persistency as low as 30-40 per cent and mis-selling as high as 60-70 per cent. Agent productivity (at 0.13 policies sold per day) is not enough to provide value to agents; hence the model is not scalable and cannot deliver on quality.

If scale was achieved, the current offering would be profitable under actual persistency performance because it is supported by lapse and surrender fees and investment revenue. But profit is not possible without scale. And scale is not possible with low agent productivity.

The pilot proved that the current distribution model (mostly mobile money outlets) is very difficult to execute at the current stage of market development in Kenya. Agents are not sophisticated enough and still seem to have better business opportunities than insurance. In this context, it was difficult to execute all the agent management processes (recruitment, training, incentives and monitoring) to achieve results.

The current product is hardly understood by clients, and it is too complex to be distributed through the retail model. Clients require more presence, education and a closer relationship with agents. Mobile money shops do not offer this.

Despite poor pilot results, opportunities remain huge. Leveraging the lessons learnt below, CIC will try different options to pursue its strategy to tap into low-income market through a savings-linked offering.
Lessons

On clients’ needs versus endowment plans and other savings-linked insurance solutions

Low-income people’s needs for medium-term savings solutions are not being met. Recent financial diaries by BFA in Kenya confirm that low-income people lead complex financial lives. Each manages more than 15 financial relationships to make ends meet and manage emergencies. They have aspirations to invest in their children’s future and build their assets. Yet the many financial services that they use do not allow them to save for longer time horizons. Most of the group or individual saving vehicles either assist just in cash-flow management or help generate lump sums after saving just few months. Box 1 features a sample family from Nairobi.

Box 1: Case study – a typical family in Nairobi

Michael (37 years old) and his wife Joy (35) live in Nairobi with their two children (13 and 7). They live comfortably on what they estimate to be about KES 50,000 net per month. They earn their income primarily through two businesses: egg production (600 layers) and firewood resale. They have hired someone to help with the firewood business, but the chickens are too sensitive to entrust to others, so this is managed solely by Joy and Michael. Michael’s family is not poor but still low-income by African standards. Michael manages most of the household finances. Joy hands income over to him to mediate. But, she keeps up with one ROSCA herself to cater for things she does not want to ask Michael to help with. Michael manages more than 17 financial relationships:

Selected tools are used for the following purposes:

- Savings Account to deposit earnings daily, but he taps this money for operational needs
- Jijenge (account with Equity bank) to force some discipline on his savings habits and a school fees account to make sure he is keeping enough money aside specifically for that purpose. He plans to use funds from both sources for school fees.
- He belongs to a number of savings groups (one linked to a bank) and often lends money to friends and family.
- Often uses bank loans to grow his business.

Source: BFA financial diaries
The initial take up of the CIC M-Bima Jijenge Savings Plan confirmed high demand for medium-term savings needs. In the initial period, more than 10,000 Jijenge proposals were received without much promotion. Clients reported that their main incentives to save with Jijenge were: long-term saving commitment (future investment, old age), convenience, affordability, and the insurance cover.

Traditional endowment plans cannot deliver value to low-income clients because opaque lapse and surrender conditions do not create discipline and fuel mistrust. Despite high demand, CIC has not managed to sustain systematic saving behaviours. Persistency remained low even if various marketing strategies were tried.

Low persistency was mostly driven by low client understanding and trust, which was partly caused by an inappropriate distribution strategy and gaps in its execution (see next section) but more importantly by the complex nature of the product.

Focus groups with clients who joined during the pilot period in Nairobi revealed that they were very confused about the maturity term, surrender value and lapses. Most believed that that it is a 3-year plan and that you can withdraw money after 3 years with interest. They did not understand surrender conditions, and most were not aware of lapses (and their consequences). Some were attracted because they thought they could get a loan after 3 years (partial withdrawal) but did not understand the details. They understood that they were covered by insurance but were confused about what exactly was covered. They had no knowledge of how to file a claim and they did not inform those whom they had appointed as beneficiaries of the life cover. In addition, they were confused about the voluntary rider to cover lives of other family members, which was bought by half of all pilot policyholders. They did not understand that they would be in arrears for the Jijenge policy if they stopped paying the additional cover.

Agents did not understand the policy much better than clients, which proved how difficult is to explain the endowment product.

The complexity of the concept of lapses and surrender conditions, a key feature of endowment plans, is the main reason why such products are unlikely to work for low-income people. Lapses and surrender fees are supposed to penalize the client if s/he gets off track, while at the same time offsetting acquisition cost for the insurer. In the context of microinsurance, it seems they work for insurers (Jijenge would be profitable with the low persistency if higher scale through better distribution was achieved). However, they do not create a sufficient incentive for discipline among clients, meaning that clients often get off track and lose money that they have saved. It is not just that the lack of flexibility does not suit the irregular cash-flows of low-income households. More importantly, low-income clients simply do not understand the concept of lapsing, so it does not encourage them to stay on track. CIC had a very generous policy on lapses, and made many attempts to reinstate the policies. However, this was not successful at all as clients did not understand the implications.

Finally, clients often feel cheated because they do not understand lapses and surrender conditions. This fuels distrust, which is particularly damaging since trust is key to win the low-income market.

There are other options to combine savings and insurance to deliver value through non-lapsable policies that offer a more balanced mix of penalties and rewards. Using savings as an entry product to tap into the low-income market can be a smart, viable strategy as there is a clear need for medium-term savings vehicles and savings is generally better understood than insurance. If trust is created through a
functional savings product, cross-selling opportunities for insurance can be substantial. As shown below, if scale is reached, insurers can get enough revenue from interest spread to make products profitable.

As discussed in the next section, distribution also plays a huge role in building trust and creating discipline as well as removing some obstacles to saving. Distribution, and especially customer education, is much easier for simple products.

A functional savings product for low-income people needs to deliver a mix of immediate rewards with no lapses and less severe penalties, underpinned by simplicity and transparency. Savings is like being on a diet, and clients look for discipline incentives. But they require a healthier and more transparent mix of ‘sticks’ and ‘carrots’. Given irregular cash-flows, they need more flexibility. They also need to see more immediate benefits because they value present value of cash more than value of their savings in the future. Therefore, small penalties combined with frequent, more immediate rewards might yield better results. What traditional endowment plans offer is the opposite: immediate, not transparent penalties and long-term benefits.

The simpler product options are basically a hybrid of endowment plans and savings completion insurance\(^1\) as shown in Box 2 with a sample product. Insurer’s revenues come from savings that are invested. If they reach scale, the interest spread is enough to cover operational costs. The life cover is minimal, and it is priced according to an assumption of a 100 per cent claims ratio. It is hoped that more cover can be sold through additional insurance products by the same agents.

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Box 2: Sample simple savings policy product prototype developed by the Facility with CIC

- No surrender period or fee. If clients surrender they get what they saved.
- Clear saving milestones (e.g. if you save 1 year you get 10,000; 2 years 20,000, etc.) that are easy to understand and track.
- Keep as affordable as current Jijenge policy, e.g. if they save 800-850 per month, they will generate 10,000 per year.
- Life policy – minimal cover (e.g. KES 20,000) for policyholder if they stay on track within their monthly schedule. Additional life and funeral product to be sold on the platform in the future. No waiting period when clients are back on schedule.
- Shorter maturity – 5 years – to fit better with client’s planning horizons
- Rewards (e.g. if you save till the end you will get bit more than KES 5,000 more after 5 years, which equals 5 per cent annual interest on savings). Some immediate rewards can be considered, e.g. for being on track the first month and every quarter.
- Small penalty (e.g. KES 100) on withdrawal.
- Possibility for partial withdrawals to make it more flexible for clients and give them the opportunity to test the product.
- To cover commissions and get the initial risk premium, a KES 200 admission fee can be charged upfront. This makes it a slightly harder sell but should reduce mis-selling as clients will think twice before buying it.

Based on a model using similar assumptions as those for the banking correspondent model discussed in the section below, this sample product breaks even in the 6th year when reserves are released. Scale is a key driver as 50 per cent less scale means that the product breaks even in 7th year, and net present value (NPV with 12 per cent over 15 years) is just 25 per cent of the benchmark. A pessimistic scenario with less scale and persistency at 60% still shows a profit position with break even in the 8th year. The surrender penalty has a low impact on profitability, so can be removed to enhance marketability. An 8-year product scenario would be more profitable but harder to market, a 3-year product would be ideal but is not profitable.
The following product features are key to build trust and discipline:

- No lapses, transparent but small fixed fee penalty for surrenders
- Clear saving milestones, clear long-term reward, reward of insurance cover when stay on track, small bonus for being on track after the first month, and after each quarter
- Possibility of partial withdrawals to allow clients to test if the product is ‘real’ - first for free; next for a fixed, transparent fee
- Shorter maturity period to fit with time horizons of low-income households

It is hoped that a better mix of penalties and rewards can help to strike the balance between discipline and flexibility. The sample product presented above seems to be flexible enough to accommodate irregular cash-flows. Experience of more flexible products, such as Max Vijay in India, shows that removing all the ‘sticks’ is not a good idea. The focus on discipline seems to be more important than the focus on flexibility.

Discipline can be also sustained through marketing such as reminders, bonuses, ‘feel good’ messages, etc. But key discipline drivers need to be integrated in the product design as marketing is not always reliable and is costly for long-term products (see next section).

Lastly, while entering the low-income market with a savings product seems to be a viable option, insurers need to quickly reach scale (i.e. have scalable distribution model) and to quickly activate cross-selling opportunities to generate more revenue to offset operating costs. While the latter should also boost the client value proposition, it needs to be done with care to make sure the market is not confused with too many new options introduced at once.

**On marketing a savings-linked insurance product sold through a retail distribution model**

A retail model without a strong brand and local presence cannot build enough trust to sustain saving behaviours. M-Bima Jijenge clients made it clear in focus groups that they tried the new product but abandoned savings as there was no local presence. Even if some appreciated an option to call the customer service centre, they still would prefer to get more ‘physical’ confirmation in the form of a CIC branch, branded outlet, billboards, and adverts on mass media or simply contact with a CIC agent. This lack of presence and close relationship was a result of gaps in the execution of the distribution strategy, but also arose from the nature of the strategy. A retail distribution strategy that relies on ‘passive’ sales is unlikely to sustain savings unless there is a strong brand and presence of local trusted agents behind it. Other distribution options discussed in the next section seem more promising in this regard.

Recruitment, training, incentivizing, monitoring... and how chaos in the beginning of this value chain has compounded effects at the end. Given resource constraints, the distribution strategy was not fully executed. It became obvious that lack of proper selection of outlets and insufficient training of agents multiplied problems to the extent that a well-trained team of CIC reps (who was supposed to support and monitor the agents) was not able to perform its routine tasks as it needed to extinguish all fires. As a result, agents were not sufficiently trained by trade reps and did not fully understand the commission structure. They were therefore quickly discouraged by the lack of immediate benefits. Given too many ‘fires’, the cycle of visits and broader monitoring activities (key success factors for the retail model) were not implemented.
The risk of mis-selling is very high if the retail model is not properly managed. The complex product and gaps in the execution of the distribution strategy, bundled with quite an aggressive commission structure, encouraged agents to catch any client who had shown any interest. Sales were not happening on the premise of ‘for a person like you this product makes sense because...’. As many as 70 per cent of policies were mis-sold during the pilot. The problem was aggravated by a low first payment requirement; clients could activate the policy with just KES 20.

Mis-selling is damaging for clients and insurance providers alike. CIC clients who did not understand the product did not contribute additional savings and risked losing their initial contributions, ranging from KES 150 to 600. CIC, on the other hand, was very concerned about the impact on its brand and the trust it wanted to earn and build with its clients.

CIC was aware of this risk based on its previous experience. It therefore took the following measures to counter mis-selling during the pilot:
- Identified a target market of 'savers' to be targeted by agents
- Employed trade representatives who frequently visit outlets to provide regular training for agents and to monitor their performance
- Set up calls from a call centre to welcome new clients and check their awareness
- Refined the commission structure to reward agents not only for first sales but also for keeping clients over the long term.

The first two measures proved difficult to implement, while the last two were not enough to reduce mis-selling. Proper training, which would reduce the extent of mis-selling, was not implemented for the reasons cited earlier.

Targeting is difficult to implement within a mass-market strategy but can have a positive impact on quality. As mentioned above one of the strategies to improve quality was to position the product to target groups of good savers. The core target group for the pilot was set as follows: self-employed and casual workers (and transfer receivers) aged 26-35 or 46+ with monthly incomes ranging from KES 5,000-20,000 and small families with children. This product positioning was informed by MIS data mining, focus groups, phone survey and findings from secondary sources.

This product positioning was not really implemented due to aforementioned gaps in agent training. Non-target segments were attracted as shown in Figure 5 in the case of age. Half of the clients attracted were not from the age target group.

If implemented correctly, product positioning could have improved considerably the performance. The difference in persistency between the youngest and oldest groups was substantial enough to prove the adequacy of the product positioning. While on average 10 per cent of clients in the pilot sample were on time with their contributions, the figure was 17 per cent for the oldest, and just 4 per cent for the youngest.
Figure 5: Age of clients

Above the line (mass media) promotion is required, and cannot be substituted by activation campaigns. Activation campaigns attracted a decent number of clients but resulted in limited ongoing sales. CIC run one-day activation campaigns in each zone and refresher campaigns in the same zones four weeks later. These were carried out by outsourced marketers operating in tents set up by outlets and a van with DJ.

The initial assumption that the campaigns would replace above-the-line marketing (as the pilot was limited to certain zones) was not correct as they have not created enough visibility to support continuous sales and persistency.

SMS communication is a cost-effective method to remind clients but has limits for education. SMS seems to be cost-effective way to remind clients that they are in arrears. Even though, on average during the pilot period, only 10 per cent of those who got a weekly SMS reminder then paid their arrears within the next couple of days, the strategy costs less than 0.5 per cent of a weekly premium. The SMS communication channel has been at the centre of the strategy to build the persistence of the Jijenge product. The relatively low response to SMSs is largely a result of the client value proposition and the mis-selling problem, rather than the effectiveness of SMS reminders.

However, SMS was not effective at all to educate clients about the product features and the value of long-term saving. CIC randomly divided new clients into four groups. The control group received just SMS reminders every week (if in arrears) and balance statements every month. The other three groups received in addition: 1) bi-monthly SMSs with savings tips showing the value of long-term savings, 2) bi-monthly SMSs that explained key product features, 3) welcome calls from the call centre to welcome the client, check his/her understanding and answer any concerns. See Box 3 for sample SMSs messages. As shown on Figure 6, all the three treatment groups had even poorer performance than the control group showing that more SMS messages can create more confusion than good. The messages might also have been too abstract, and might have had a greater impact if delivered in a specific context and led to the client taking a relevant action and therefore learning by doing.
Box 3: Sample savings and product features SMSs

- Enjoy a life of peace by investing in your future through saving now.
- If you start saving 20/= daily for your 2 year old child through Jijenge Savings plan, you will have 100,000/= when they are going to Form 1.
- 20/= can hardly buy a 300 ml bottle of Soda but if you save it daily through Jijenge Savings plan, you will have 100,000/=! Be wise. Grow your money.
- Build your finances with friendly contributions from as low as KES 20 per day, sent through your mobile phone, by CIC M-Bima at no transaction cost!
- Get attractive withdrawal benefits after 36 months and enjoy peace mind as the CIC Jijenge saving plan comes with life and disability cover.
- Have a question? Please call us today at our call centre on 0703099120, Monday to Friday, or email us on m-bima@cic.co.ke

Figure 6: Effectiveness of marketing interventions to build persistency

Call centre out-bound calls do not add much value if other more basic issues are not solved first. Results for welcome calls came as a surprise. They were well executed (using a good script) and appreciated by these few clients in focus groups who received them. But it seems that they were not enough to solve the basic problems with the client value proposition discussed earlier.

**Focusing communication on savings might ‘hide’ insurance.** Based on market research and subsequent product positioning, the messaging was focused on the savings tagline ‘Jijenge na CIC’ (‘Build yourself with CIC’) and core benefit message ‘Save now, save more, save easily’. Convenience and affordability were the other factors emphasized in the messaging. Life insurance was promoted as a secondary benefit.

While the savings focus made sense to attract clients, the lack of sufficient communication about insurance might have caused low claims incidences.
On the viability of the retail distribution model

The MMO retail model did not work to sell Jijenge. The pilot proved that the current distribution model (mostly mobile money agents) is very difficult to execute at the current stage of market development in Kenya. Results are very disappointing – low take up, very low persistency and very high mis-selling. Mobile money outlets as agents are not sophisticated enough to sell complex insurance products and still seem to have better business opportunities than insurance. Given the transactional nature of mobile money business, they value present revenues much more than future ones, hence it is difficult to build the quality of their Jijenge portfolios over time. This discourages them from investing more time in sales beyond the initial sale.

This holds true even for the best performing outlets during the pilot, which were less affected by execution issues and received reasonable support and service from CIC trade reps. As shown in Figure 7, even for the group of best performers, the model is not scalable because of low agent productivity. While quality is slightly better, average productivity is lower than 0.6 converted policies per day, which is a minimum to deliver value to agents (estimated at KES 5,000 in revenue per month). Compounded challenges of scale and quality make it hard for agents to see value in selling the product.

Figure 7: 15 top performing outlets during the pilot

<table>
<thead>
<tr>
<th>Outlet</th>
<th>Converted, active policies</th>
<th>Policies in arrears</th>
<th>Mis-selling rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>M-Pesa, phone accessories</td>
<td>45</td>
<td>76%</td>
</tr>
<tr>
<td>B</td>
<td>Shoes &amp; leather goods</td>
<td>47</td>
<td>83%</td>
</tr>
<tr>
<td>C</td>
<td>M-Pesa, chemist</td>
<td>24</td>
<td>79%</td>
</tr>
<tr>
<td>D</td>
<td>M-Pesa, photo studio</td>
<td>52</td>
<td>88%</td>
</tr>
<tr>
<td>E</td>
<td>M-Pesa, beauty products</td>
<td>11</td>
<td>64%</td>
</tr>
<tr>
<td>F</td>
<td>M-Pesa</td>
<td>42</td>
<td>88%</td>
</tr>
<tr>
<td>G</td>
<td>Shoes &amp; leather goods</td>
<td>66</td>
<td>91%</td>
</tr>
<tr>
<td>H</td>
<td>Key cut, electronic repairs</td>
<td>26</td>
<td>81%</td>
</tr>
<tr>
<td>I</td>
<td>M-Pesa, Equity BC agent</td>
<td>9</td>
<td>67%</td>
</tr>
<tr>
<td>J</td>
<td>M-Pesa metalwork services</td>
<td>15</td>
<td>80%</td>
</tr>
<tr>
<td>K</td>
<td>M-Pesa, phone accessories</td>
<td>63</td>
<td>90%</td>
</tr>
<tr>
<td>L</td>
<td>M-Pesa, yuCash</td>
<td>24</td>
<td>88%</td>
</tr>
<tr>
<td>M</td>
<td>yuCash, Equity BC agent, hardware</td>
<td>19</td>
<td>84%</td>
</tr>
<tr>
<td>N</td>
<td>Phone accessories</td>
<td>8</td>
<td>50%</td>
</tr>
<tr>
<td>O</td>
<td>M-Pesa general shop</td>
<td>29</td>
<td>90%</td>
</tr>
</tbody>
</table>

As shown below, the current retail model is not viable as high maintenance and promotion costs require quick scale to offset fixed costs.

In relative terms, there seem to be better options than the MMO retail model for every kind of insurance product but their viability is very sensitive to scale and long-term financial conditions. It is difficult to evaluate the MMO retail distribution model in the CIC case because many challenges in distribution are due to the fact that the product is complex, while this type of distribution, at least in the
beginning, suits simple offerings. However, the pilot shed some light on the relative strengths and weaknesses of the model (Figure 8) compared to other distribution options such as:

- Banking correspondents (BC) – retailed model similar to MMOs but delivered only through the emerging agency banking model developed by some key banks in Kenya.
- Direct agents – CIC owned sales force, supported by branches or mini-branches, targeting both individuals and groups.
- Community-based agents – a hybrid of retail (MMO/BC) and direct agents, with CIC reps recruiting community leaders who sell to groups in their neighborhood.

**Figure 8: Comparative analysis of distribution options**

<table>
<thead>
<tr>
<th></th>
<th>strengths</th>
<th>weaknesses</th>
<th>opportunities</th>
<th>threats</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Mobile money outlets</strong></td>
<td>• Network size • Deployment speed</td>
<td>• Low scale due to very low agent productivity • Low quality due to agent profile, nature of transactions and lack of lasting relationships with clients • High maintenance and promotion costs require quick scale</td>
<td>• None at the moment</td>
<td>• Partnership risk with MNOs, branding issues • Regulatory action due to mis-selling and low client value</td>
</tr>
<tr>
<td><strong>2. Agency banking BC – banking correspondents</strong></td>
<td>• Quick and large scale due to network size, deployment ability, agent productivity (agents more familiar with financial services), brand presence • Maintenance and promotion costs at low levels due to economies of scale</td>
<td>• Still low agent capability to sell/administer complex products (at this stage of market development of agency banking in Kenya) • Difficulty to incentivize agents to cross-sell as they are still mastering basic financial services</td>
<td>• High profits (but at high risk) • Rather for simpler products • Right timing to get engaged as the agency banking can mature quite quickly</td>
<td>• Execution risk due to nascent stage of agency banking in Kenya • Financial risk due to high sensitivity to long-term financial conditions • Partnership risk, product cannibalization</td>
</tr>
</tbody>
</table>
### 3. Direct agents

- **Quality due to**
  better trained agents and intimate client relationships
- **Scale due to**
  agent productivity
- **High maintenance costs** that require higher scale to break-even
- **Time to break-even**
- **Only if cross-selling opportunities are available** quickly to generate more revenue to break-even earlier
- **Ability to leverage**
  CIC branch network & build brand
- **Financial risk**
  due to high sensitivity to long-term financial conditions
- **Reliance on individuals** (turnover risk)

### 4. Community-based agents

- **Low maintenance costs**
- **Quick deployment**, hence quick scale in the beginning
- **Decent quality** and relatively cheap way to build trust
- **Low scale beyond 2nd year due to limited opportunities to sell beyond the main groups** (limited new business beyond 1st year)
- **Only if cross-selling opportunities are available** quickly to generate more revenue in the medium-term
- **Low risk due low internal costs**
- **No major threats**

In summary, the BC model is definitely the most scalable, especially for simpler products, but also poses an important partnership risk, especially for savings-linked products (i.e. product cannibalization). Both MMO and community-based models have limitations on scale (Figure 9), and hence are too expensive to collect contributions (Figure 10) and offset fixed costs (sales manager, promotion) (Figure 11). The community-based model has a lower cost structure and might work if there is the possibility to sell other insurance products or if agents are transformed into direct agents. The direct agents model requires more investment upfront, has potential to reach substantial scale, but cross-selling will need to be activated quickly to generate more revenue. See the annex for the assumptions used to model the distribution options. All projections below assume current agent productivity for MMO, and required agent productivity for other models.
Figure 9: Scale

![Graph showing the scale of active policies over years for different categories: retail (current), BC, direct, and community. The y-axis represents thousands, and the x-axis represents years from year 1 to year 10. Different lines represent each category, with the BC category showing the largest increase over the years.]

Figure 10: Cost of collecting contributions (Ratio: operating costs / savings collected)

![Graph showing the ratio of operating costs to savings collected over years for different categories: retail (current), BC, direct, and community. The y-axis represents the ratio from -10% to 60%, and the x-axis represents years from year 1 to year 10. Different lines represent each category, with the retail (current) category showing the most significant increase in ratio over the years.]
Only the BC model is profitable from the start, while the other two break even in the 5th or 7th year. The current MMO retail scenario is not profitable. All the projections are very sensitive to scale and long-term financial assumptions. As shown on Figure 12, when the long-term interest rate is reduced by 4 percentage points and the short-term interest rate by two percentage points (along with a slight increase in mortality and slightly lower persistency), all models are not profitable. Given these low-margins, the higher the scale, the higher the profits or losses, making the BC model attractive but risky.
Agent productivity can be tested quickly before investing more. Agent productivity should be the key performance indicator to look at when testing distribution options. While quality and costs are important too, scale is the key driver of viability and if the agent productivity is not at the required level (i.e. the agent value proposition is not adequate), scale is unlikely to be attained.

This has important implications for pilot testing. If this was clearer from the outset, CIC could have run a smaller test with a few agents and one trade rep to observe the level of productivity rather than investing in setting up almost 100 outlets. This quasi-laboratory setting would have helped CIC to quickly understand whether there was potential for scale or not.

On technology

A wireless application protocol (WAP) app is a must to improve the quality of customer data capture and to build persistency. Good quality of customer data is key for a product with frequent transactions like Jijenge. CIC established a good process to collect proposal forms but still some human errors occurred, especially when it was not clear who should input the information. This impacted 12 per cent of pilot clients who were either not reached by CIC communication channels or received inaccurate information about their balances. This also meant that some premiums paid by new customers were not matched to a policy in the system because the policy has not been set up. Because the premium could not be matched to a policy, the SMS confirmation of the first payment was not made. In fact, no SMS
correspondence was sent until the policy was set up in the system. This also resulted in inaccurate commission payments, which quickly demotivated agents.

A WAP app to capture client data on the spot was introduced during the pilot but was not used by agents because they either did not have proper mobile phones or they were not aware about the WAP app. The first step is to make sure agents understand the link between data capture and commissions.

The WAP app should collect the same customer data as other enrolment channels. The other problem observed was that WAP app was simplified and did not collect all of the information that the web app or paper form did. Some of this information is necessary for underwriting the policy. The back office had to spend time manually entering additional information. For instance, the mobile app allows selection of family cover but does not collect the information of family members. The information is supposed to be captured in a paper copy of the application, which is manually processed. However, if the hard copy is not delivered, then there could be a loss of information or further intervention needed to obtain the information.

A WAP app could also be used by agents to digitalize paper forms. To further speed up the process, the WAP application could have a functionality to photograph proposal forms and send them digitally through the system.

Last but not least, agents can also use web or WAP apps to check on their portfolio in real time. Many agents complained during the pilot that they could not get quick access to information on their performance and expected commission payments. As they do not see their portfolio performance, agents rarely follow up with clients to stimulate systematic savings. Besides increased awareness raising and a specific training module on how to use WAP app, it is crucial to either equip agents with proper phones or to recruit ones who already have good ones.

**Connectivity issues can be solved by cloud-based solutions.** Another factor that affected the quality of customer data was frequent connectivity problems. Systems cannot operate properly with connectivity problems and this caused unmatched premiums and made it difficult to register new clients in real time. When systems were down for various reasons (e.g. loss of electricity and failure of backup, server failure), M-Pesa is not able to notify CIC of payments received from customers. Thus, some customers receive SMSs notifying them that they are in arrears when they are not. Connectivity reports generally alert CIC to the fact that they might have missed some payments.

CIC has been working to move to a cloud-based solution that will reduce connectivity problems and manual interventions. Manual interventions take too much time. Turnaround time for unmatched premium is supposed to be 7 days. Some unmatched premiums fix themselves once the agent enters the customer into the system. Premiums that are unmatched longer than 5 days require analysis of the M-Pesa system, which records all payments that are received. Premiums are manually matched. This requires calling customers in some cases. M-Pesa is then asked to rerun the transactions for those payments so that the M-Bima system can pick them up.

**Developing USSD function is a must to build trust and sustain savings.** Clients showed a strong preference to have an M-Bima USSD menu on their mobile phones to be able to check their balance in real time. They had this option on the M-Bima website but few used it. Clients are also worried about the M-PESA number. Even if they get confirmation from M-PESA they are not sure the money went to CIC, and they would prefer to get payment confirmations from CIC or, even better, to be able to check through an M-Bima menu on their mobile phone.
**ANNEX: Assumptions for modeling of distribution options**

<table>
<thead>
<tr>
<th>Scale</th>
<th>Quality (persistency 1st year / persistency next years)</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>deployment (outlet/agents per year)</td>
<td>productivity (policies per day)</td>
<td>outlets per TDE / TDEs per regional supervisor</td>
</tr>
<tr>
<td>Mobile money outlets*</td>
<td>300</td>
<td>0.13</td>
</tr>
<tr>
<td>Agency banking (BC)**</td>
<td>600</td>
<td>0.5</td>
</tr>
<tr>
<td>Direct agents**</td>
<td>50</td>
<td>2.3</td>
</tr>
<tr>
<td>Community**</td>
<td>200</td>
<td>0.6</td>
</tr>
</tbody>
</table>

* Based on pilot data,  ** Estimations based on some initial experience, *** no TDE level with direct agents, **** btl promotion costs include outlet branding and POS materials; atl is regional/national media, ***** for agency banking and direct agents more servicing is done by agents, hence lower HQ costs (call centre, claims queries)

**Commission** is the same for the MMO, BC and community models (assumed 5% of first year savings collected & 1.5% for next years). For Direct agents – the commission is doubled as they do more work on their own (and without TDE support).

**Financial and actuarial assumptions:**
- WHO mortality, 20% TPD loading, lapse as current on ‘paying’ portfolio, KES 50 million capital injection, 10% long term and 6% short term investment
- **stress test (as shown on Figure 12):** 10% increase in mortality, 40% loading on TPD, 10% higher lapse per annum, no capital injection, 6% long term and 4% short term investment return