Escaping the Credit Life Trap

Learning diary on an upselling pilot project in Indonesia

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Photo 1

A focus group discussion with a group of a rural bank’s customers in Sukabumi, West Java as part of the 2013 pilot partner selection process

All monetary values in this study are in US-dollar, unless otherwise stated.
A staff of BPR BDAS rural bank in Surabaya explains the benefits of a piloted Personal Accident tick-box product to a salted-fish and banana seller in a traditional market in Surabaya, East Java. Compared to her $125 turnover per day, she says that the $2 yearly premium is attractively affordable, although she is not sure if she really needs such insurance.
I. Executive Summary

From November 2013 to December 2014, Allianz Indonesia ran a small “customer conversion” project with four small microfinance institutions. The goal of the project was to prove that it is possible to sell additional voluntary insurance products on top of mandatory credit life insurance, to the tune of a 5 percent conversion rate target.

At the time, Allianz had already built a sizeable customer base of 2.7 million customers through its 76 microfinance distribution partners. The question was how to better capitalize on this large customer outreach and how to provide more value-adding protection to customers at the same time.

By February 2014, Allianz and its pilot partners started offering three types of simple voluntary insurance products to the partner’s loan customers, all of whom already had mandatory credit life coverage from Allianz. Allianz Indonesia describes their chosen sales method as a tick-box approach, which was meant to make adding voluntary products to your loan as easy as ticking a box on your loan application form. This method also aimed to minimize the additional workload for the distribution partners and their staff.

For regulatory reasons, such fully integrated tick-box approach could not be implemented. Still, two of the four pilot partners managed to achieve conversion rates of 15.7 percent and 25.3 percent, while upselling at the other two (and larger) partners failed to gain traction. There, conversion hovered around 2 percent, bringing the overall conversion ratio down to exactly the original 5 percent target.

The key reasons for the difference in performance was that – contrary to the other two partners - the two successful ones shared a very similar vision with Allianz i.e. enhancing their value proposition for the customers, while earning commissions remained a secondary factor. Such partners proved to be open to making a real effort along with Allianz, in order to engineer processes and sales talk in a way that reduces additional workload and is adaptable to the context of the partner and its customers.

Among the three offered products (fire, personal accident and hospital cash), personal accident by far proved to be the most popular choice of customers. Possibly because it was the simplest of all products, carrying a high sum insured with a relatively small premium of just $2 per year. Yet, for time reasons and contrary to best practice, Allianz Indonesia did not fully tailor-make the products to the customer needs but only slightly adapted existing conventional product offers.

A very small “pilot-in-pilot” on telemarketing, where a very small sample of tick-box customers were approached via phone for further upselling, pointed at the immense potential that telemarketing can have in reaching the largely untapped low-income market.

The customer conversion pilot of Allianz Indonesia can be deemed an encouraging success. It clearly indicates that customer conversion can work, if conditions are right and partners are aligned. The upcoming challenges are (a) scaling up the approach with larger partners and (b) arranging for efficient renewals.

Allianz Indonesia believes that the demonstrated conversion ratios, even at the 25 percent level seen with the best performing partner, are still below the maximum saturation level. With more adequate products, a focus on partners that meet the “partner success criteria”, and conducive regulations (for a fully integrated tick-box sales approach), conversion rates could be significantly higher.
II. Project Background

Credit Life is a good starting product for any microinsurance initiative because everyone involved can draw some benefits from it. First of all, the microfinance institution (MFI) which takes out a group credit life policy to cover the death of its debtors improves its internal risk management, especially in the case of covariant risks that may lead to mass defaults such as natural disasters or epidemics. Secondly, the debtor can enjoy peace of mind that in case of her untimely death, her family would not be burdened with debt repayment. For this reason, microcredit life—although being mandatory in most cases—mostly does not face objections from the customer’s side. Lastly, microcredit life makes a good entry product into the low income market, for the insurance company. The product is relatively easy to bring to scale at low operational costs, because the automatic group cover replaces a costly customer-to-customer sales approach. Therefore, credit life is more sophisticated and high-touch microinsurance products which is likely to break even faster compared to other products.

However, credit life is not without criticism. One clear shortcoming is the lack of awareness of coverage among a significant portion of insured clients. This is a result of the nature of credit life as a compulsory add-on to the much more salient microloans. The loan is the key objective of customers. Therefore, MFI staff often does not bother much to properly explain the insurance component of the loan. And even if they do, customers may as well soon forget about this ‘small-print detail’ of their loan contracts.

In 2013, a survey on behalf of Allianz\(^1\) revealed that as many as 45 percent of people insured under Allianz Indonesia’s flagship “Payung Keluarga” (= Family Umbrella) microcredit life product were unaware of their insurance cover. What is more, only 20 percent could correctly point at Allianz as their insurer. The other 80 percent were either unaware of their coverage or thought the insurance was provided by someone else, e.g. their own microlending institution on self-insurance basis.

Thus, Credit Life is a good product to quickly penetrate the low-income market at scale, but due to its piggy-bagged automatic nature it is less effective in actually creating insurance and brand awareness.

With this realization in mind, Allianz Indonesia started a pilot project on upselling in November 2013. The project targeted existing credit life customers and tried to motivate them to add voluntary top-up coverage to their mandatory base cover. The project was meant to show that how to bring Allianz’ long-term “grow with customer” strategy to life. By this strategy, Allianz seeks to win low-income customers early on, preferably as their first ever insurer, and build a strong brand loyalty that the company can capitalize on once customers have grown richer. In short, the project aimed to escape the comfortable credit life trap and take microinsurance distribution to the next level.

At project start, the “Payung Keluarga” portfolio looked as follows:

| Table 1 |  
| Active distribution partners, e.g. MFIs | 76 |
| Active insured (i.e. no. of insured loans) | 2.7 million |
| Average new insured per month | 220,000 |
| Average single premium per insured | $0.50 |
| Average Gross Written Premium per month | $110,000 |

Data as per 31 December 2013

\(^1\) Microinsurance Customer And Non-customer Awareness Survey, Allianz SE, 2013.
In order to limit risks in case of project failure and to increase project agility, Allianz Indonesia decided to start with a limited number of its 76 distribution partners. The envisaged six distribution partners were small in scale; none having more than 10,000 borrowers (at the time, the largest distribution partner had over one million borrowers insured). The company reckoned that small partners offered more flexibility on project implementation and on-the-fly project adaptation based on lessons learned.

Eventually, the following four distribution partners agreed to launch the pilot project with Allianz:

<table>
<thead>
<tr>
<th>Table 2</th>
<th>BPR² BDAS Surabaya</th>
<th>BPR BDAL Bekasi</th>
<th>KKBS Cooperative Jakarta</th>
<th>KAKR Cooperative Tangerang</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established</td>
<td>2012</td>
<td>2003</td>
<td>1985</td>
<td>2009</td>
</tr>
<tr>
<td>Loan customers reachable for pilot³</td>
<td>379</td>
<td>1,063</td>
<td>145</td>
<td>7,681</td>
</tr>
<tr>
<td>Disbursed loan volume to reachable customers</td>
<td>$115,000</td>
<td>$1,700,000</td>
<td>$1,100,000</td>
<td>$5,200,000</td>
</tr>
<tr>
<td>Average loan size of reachable customers</td>
<td>$300</td>
<td>$2,500</td>
<td>$8,800</td>
<td>$370</td>
</tr>
</tbody>
</table>

Data as per 31 December 2013

Voluntary sales started in February 2014 and the pilot was scheduled to run until December 2014. Based on the pilot results, Allianz and its pilot partners were to decide whether to scale up further the upselling efforts (additional customer groups and products), maintain the status quo (business as usual) or stop the upselling efforts altogether.

III. The Voluntary Add-on Products

<table>
<thead>
<tr>
<th>Table 3</th>
<th>Payung Perlindunganku</th>
<th>Payung Rumahku</th>
<th>Payung Kesehatanku</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product type</td>
<td>Personal Accident</td>
<td>Fire, with personal accident benefit</td>
<td>Hospital Cash</td>
</tr>
<tr>
<td>Coverage period</td>
<td>1 year or equal to loan tenor</td>
<td>1 year or equal to loan tenor</td>
<td>1 year or equal to loan tenor</td>
</tr>
<tr>
<td>Cover and benefits</td>
<td>Sum insured of $2,000 (IDR 25mn) for accidental death. Proportional payout for accidental total permanent disability, depending on degree of disability.</td>
<td>Sum insured of $160 (IDR 2mn) if a fire renders the home uninhabitable and for accidental death</td>
<td>$8 (IDR 100,000) per day of hospitalization for (max. 180 days/year) and 50% cost reimbursement for surgery, up to a max. reimbursement of $80 (IDR 1mn)</td>
</tr>
<tr>
<td>Premium</td>
<td>$2 (IDR 25,000) per year</td>
<td>$1.60 (IDR 20,000) per year</td>
<td>$12 (IDR 150,000) per year</td>
</tr>
<tr>
<td>Commission</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
</tr>
</tbody>
</table>

² BPR = Bank Perkreditan Rakyat (people’s credit bank). A specific legal form for secondary banks in Indonesia, often located in rural areas and smaller in size and product range than fully fledged commercial banks
³ At KAKR, only loans above USD 250 are registered with Payung Keluarga. The rest are self-insured by the cooperative.
These three add-on products share the following characteristics:

- Voluntary
- Simple and easy to explain
- Affordable premiums
- Processes that can be seamlessly integrated into existing distribution models and operations

In order to tie the sales of the voluntary add-on projects as closely as possible to the distribution of loans and credit life insurance, the original idea was to include the add-on offers directly on the loan application forms of the MFIs. The customers would only have to “tick the box” on the form, if they wanted to add any voluntary coverage to their loan and credit life cover. The extra premiums would be deducted from the loan and the coverage duration would be exactly as long as the loan.

Due to this “tick the box” approach, which is similar to opting for extra travel insurance when buying online flight tickets, the entire project and its products became known as the “tick box” pilot and the “tick box” products, even though the original idea could not be fully implemented (see below).

The sales talk that the MFI loan officers were meant to adopt when processing new loan applications was roughly as follows:

- “Dear customer, as a loan customer of our company you are already covered by Payung Keluarga insurance from Allianz. This is a credit life insurance which is mandatory for every borrower as a part of the terms and conditions of the loan contract. The benefits of this insurance are as follows…”
- “Payung Keluarga insurance only covers your outstanding loan balance in case of your untimely death or (with some MFIs only) that of your husband.”
- “As our customer, if you now want to extend your insurance coverage with just a little additional premium, please tick the corresponding box on the provided enrolment form and make sure you duly sign it.”
- “The benefits of each of these voluntary extra products are as follows…”

**IV. Project Steps**

1. Contact the distribution partners to explain the “tick box” idea and the underlying “grow with the customer” vision
2. Analyse product needs and decide on products
3. Clarify operational and legal aspects, including renewal procedures
4. Sign a memorandum of understanding with the distribution partners on-board
5. Conduct joint field visits to customers with the staff of the distribution partner, to test how to best explain and sell the products
6. Train the staff of the distribution partner, including on-site handholding for the initial sales
7. Monitor sales and organize sales contests as needed
8. Seek feedback from customers, field staff and partner management
V. Performance Indicators and Drivers

Without any previous experience in microinsurance upselling, the project management set the conversion target for the pilot project at a conservative 5 percent. Table 4 shows that this target was exactly met as an actual 5 percent conversion rate as achieved by December 2014. For the two more successful partners, BPR BDAS and KKBS cooperative, conversion rates were as high as 15.7 percent and 25.3 percent respectively.

Table 4

<table>
<thead>
<tr>
<th>Tick-box 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>9.246^4</td>
<td>12,476</td>
</tr>
<tr>
<td>Voluntary tick-box sales (c)</td>
<td>152</td>
<td>23</td>
<td>212</td>
<td>231</td>
<td>618</td>
</tr>
<tr>
<td>Conversion ratio (c/d)</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

The Allianz project management team attributes the significant outperformance of BPR BDAS and KKBS Cooperative to the following success factors:

- From the very beginning, the management of BDAS and KKBS showed a high trust level in Allianz’ capabilities regarding fast service and quick claim payment;
- Allianz could convince both institutions that the additional workload created by the pilot would not be significant and would not disrupt the daily work routine of their staff. The other two partners kept strong reservations on this point;
- Both institutions made the insurance sales talk a clear part of their own Standard Operating Procedures (SOP). Each front line staff was clearly instructed to explain the tick-box offers to their customers. Due to their workload concerns, the other two institutions took a less stringent approach
- Both institutions clearly expressed that commission income was not their primary driver. They were focusing more on enhancing the value proposition to their clients.
- Overall, BDAS and KKBS shared a similar vision with Allianz, built on mutual trust.

Therefore, it is not surprising that in December 2014, BPR BDAS and KKBS Cooperative decided to continue and even scale up their tick-box sales beyond the pilot project end. Although the products are still open for sale at BPR BDAL and KAKR Cooperative, these activities are no longer actively monitored and supported by Allianz and sales are expected to dwindle further.

For 2015, the next step for Allianz Indonesia is to replicate the success story of BPR BDAS and KKBS Cooperative with larger partners. The company has already approached some of these institutions and received positive initial feedback.

^4 At KAKR, only loans above $250 are registered with Payung Keluarga. The rest are self-insured by the cooperative.
V. Learning Diary

The following learning diary provides a more in-depth view of the step-by-step learning process that Allianz Indonesia underwent during the tick-box pilot.

November 2013:

- We have just started the partner selection process for our pilot project. We are in discussions with six smaller distribution partners. One of them is willing to integrate the “tick-box” application directly into the loan application form. This would allow us to test the “full tick-box” approach as initially intended. Then, customers would only need to fill one single form for their loan and for their voluntary add-on insurance. The agreement to buy add-on insurance would just be a simple tick in the right box. However, the distribution partner shortly backtracked because of worries that such a sales approach would not be in line with current regulations, which are not very clear on how MFIs are allowed to promote and sell insurance.

- Illustration 1 shows an example of how a fully integrated tick-box application could look like:

Illustration 1
• We have prepared a draft memorandum of understanding which contains the following crucial clause: “The distribution partner allows Allianz to approach the customer for later direct upselling, provided that the customer herself has given her informed consent to this.”

• From the six prospective partners, eventually only four have agreed to cooperate for our tick-box pilot project, but none of them agreed to use a fully integrated “tick-box” enrolment form (as in Illustration 1). All four have concerns that such a tight integration with their loan business may be considered objectionable by the regulator, depending on how strictly the regulator interprets current regulations which stipulate that MFIs cannot run their own insurance business. This is why we have to create separate enrolment forms for all partners. A sample of such a “stand alone” enrolment form is given in Illustration 2. Importantly, and in order to comply with Indonesian customer protection requirements, the form also contains a short customer declaration that Allianz may approach her later for further product offers.

Illustration 2

December 2013

• Logistics for the pilot project have been fully put into place, including (a) all SOPs, (b) MFI staff training materials, and (c) an overview brochure on all three voluntary add-on offers (see Illustration 3). This sales tool is meant to help the MFIs’ front line staff to quickly explain the product proposition.

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5 There are two regulations that distribution partners frequently refer to in this context: Law No. 1 of 2013, Paragraph 14 which states that microfinance institutions are prohibited from undertaking any other activities than supporting businesses and the public through microloans, savings and business development consultancy services. Nothing is said about insurance. This provision is the primary point of concern for cooperatives. BPRs also tend to refer to Bank Indonesia’s Circular Letter No. 12/35 of 2010 on Bancassurance, which only mentions fully-fledged commercial banks in the context of Bancassurance but does not say a word on BPRs.
We also have finished a small IT upgrade that enables our microinsurance administration system to accommodate the tick-box products. The necessary IT efforts were relatively small because the system was already pre-designed to accommodate simple upselling processes. Also the Excel-based Bordereau (spreadsheet) reports that our partners used for submitting their monthly production data to us needed only small modifications. Partners appreciate that the additional reporting effort is minimal and that we continue to using just one single reporting template.
What happened today?

- We have given on-site support to staff of KKBS Cooperative in Jakarta to help them explain the new tick-box products when cooperative members came to the counter at the cooperative’s head office.
- At the beginning of the day, we already explained the commission scheme and a special sales contest to them. However, their reaction was not exactly what we had expected. They did not seem to be very enthusiastic about the new potential income source. Some even looked completely absent. Nonetheless, they were quite positive about the products themselves and about having a new activity entering their daily office routine.
- For some time, we kept observing how several customers came to the counters. When finally one female customer approached a female credit administration staff to apply for a new loan, we took the opportunity to assist the staff in explaining the new insurance products.
- The conversation with this customer lasted for only three minutes. Then, she emphatically said: “I am not interested” and left the office.
- After that, there were no more customers applying for credits, so we did not get any further customer engagement opportunity that day.

What did we learn today:

- The sales approach that we tried today is similar to the conventional in-branch bancassurance selling where the insurance representative directly talks to the bank customer in the bank’s branch. In that situation, low-income customers like the one we met today, seem to feel uncomfortable because a stranger is trying to sell them something; someone who does not belong to the well-known and trusted cooperative staff.
- Even when the staff of the cooperative tried to de-escalate the situation, she was not successful. The emotional gap between us and the customer was too wide.
- This situation was due to being at the cooperatives head office, at the moment of loan application. When we later accompanied some cooperative staff to the field during visits to customers’ homes for loan collection, the situation was completely different. Then, most of the visited customers where open to listen to us and to consider purchasing insurance.
February 2014

- The design of the insurance membership certificates for the three tick-box products has finally been completed. Going by the lengthy provisions and technical insurance provisions that they contain, they are clearly not yet ideally adapted to the needs of the low-income market. However, it would have taken too much time and alignment efforts to produce shorter versions written in simple common language. Therefore, project management decided to go ahead with the conventional first version, and to simplify it at a later stage.

Jakarta, 29 January 2014

What happened today?

- Today, we had calls with our four pilot distribution partners to discuss the commission scheme. All products carry a standard commission of 30%. The question that we haven’t really solved so far is how to best distribute it among the distribution companies and their back office and front office staff.
- All four partners do NOT wish that the commission is directly transferred from Allianz to their staff. The reasons differ slightly, depending on institution type:
  - The two BPR partners declare that there is no clear regulation from the financial supervisory authority (OJK) concerning “bancassurance for BPRs”. Therefore, they prefer to play safe and not have any commission directly channeled to individual members of BPR staff. This way, the BPR management can account for this new fee based income properly in their corporate books.
  - The two cooperatives are not worried about their respective regulation [which is different from BPR regulation]. Yet, they still voted against direct front liner incentives, in order to safeguard the esprit de corps of their staff. Giving financial incentives to front line staff while back office staff sees none of the money may create discord. Therefore, they rather prefer to devise their own balanced distribution mechanism.
- Moreover, all four institutions prefer that their staff stays focused on their key tasks and not get too distracted by the prospect of insurance commissions. They would like to avoid a situation where the staff may feel like being “the servant to two masters”.

What happened today?
Jakarta, 13 February 2014

What happened today?

**BPR BDAL**
- Today, the first ever real tick-box enrollment happened at BPR BDAL. It was for our Personal Accident product “Payung PerlindunganKu”. The actual enrollment form shown in Illustration 4. There seem to be two reasons for this particular sales transaction: (1) the affordable premium of $2 (IDR 25,000) per year and (2) the closeness of the BPR’s staff to the customer. Interestingly, the actual interest and need for insurance was not the main driver. The pioneer customer has been quoted to have said: “I am fine with paying 25,000 rupiah for a product that is offered to me by the people that so far have been very helpful with my loan applications and collection of the installment payments.” So, it is almost like a complementary purchase.

**KKBS Cooperative**
- We also visited KKBS today to support and monitor the pilot progress. We were able to collect six new applications ready to be processed.

**KAKR Cooperative**
- The on-site “handholding” support that our team members have given to KAKR field staff when visiting customers has not yet lead to any tangible results. So far, there are zero tick-box sales at KAKR.

Illustration 4
What happened today?

- Once again, we did on-site “handholding” to support the KAKR staff.
- At KAKR, we can see what we also noted with the other pilot partners: From the three add-on products, apparently only the Personal Accident product “Payung PerlindunganKu” really develops genuine sales appeal. This is partly due to the affordable premium of $2 per year, which compares favorably to the Hospital Cash Offer, which sells at $12. It is also due to the attractively high sum insured of $2,000, which is much higher than the $160 that the slightly cheaper Fire insurance product offers. Lastly, the product is the easiest one to explain as it has only one simple coverage type: accidental death. Even the Fire product has more coverage types: Fire and a small personal accident component on top.
- At KAKR, we mostly meet up with the women who have formed credit groups that jointly borrow from KAKR. Many of them are interested in the Personal Accident product, but they still don’t want to enroll on the spot, despite the affordable $2 premium. They want to consult with their husbands or grown-up children first.
- Some of the women actually want to enroll right away, but some of those cannot read and write so they ask for help in filling the enrollment forms. However, they clearly understand the product proposition and are able to sign themselves.
- We also ask for the customer’s mobile phone number in the enrollment form, especially with future upselling via telemarketing in mind. However, the larger part of the women do not have their own mobile phones. We, therefore, recommend to provide the mobile number of their spouse or children because typically at least one family member owns a mobile phone.
- Some of the women ask for insurance for their spouses and children. We explain that the tick-box insurance is available for their spouses, but not yet for children.
May 2014

- Until now, we have sold 152 tick-box insurances, out of the approximately 8,800 reachable credit life customers of our 4 distribution partners. This means that our conversion ratio is currently standing at 1.7 percent. With just 7 months to go until the end of the pilot, this is still significantly below our 5 percent target. Fortunately, with every voluntary insurance sold, the conversion ratio increases, as the total number of reachable customers remains relatively stable.

- This month, we conducted a quick telemarketing trial on the collected mobile phone numbers. The purpose of this trial is to test how the individuals from our target market who have already bought their first voluntary insurance product react to telemarketing efforts.

- Unfortunately, out of the 152 tick-box customers, only 33 actually put down their mobile phone numbers, which severely limits our sample size. Out of these 33 customers, we managed to reach 6 on the telemarketing pilot day. What we offered via the phone was a simple health insurance product that we “hijacked” from our conventional telemarketing channel for testing purposes. To buy this product a credit card is needed. We already know that virtually none of our customers have a credit card. So we did not expect any sales. However, the customers showed interest in the product and allowed us to talk to them six minutes on average. Some were disappointed that they could not buy the product since they do not have a credit card.

- The telemarketing trial can still be seen as a success. As a quick test, it points at the potential of telemarketing in the untapped low-income market. Telemarketing could be the third step after mandatory credit life and the voluntary tick-box add-ons. However, before launching this at a larger scale, a more efficient collection method (like mobile money) is needed.

July 2014

- Now, we have been effectively selling tick-box insurance for six months but we are still far away from satisfactory results. We suppose that one of the challenges in achieving higher conversion rates is the inability or reluctance of the partners’ front line staff to properly explain the insurance offerings as soon as we turn our backs and go home. We, therefore, develop a special game that explains the concept of insurance in a fun way and by using analogies to well-known community risk management practices that help to easy understanding. A video documentation of this insurance game can be found here: https://www.youtube.com/watch?v=6ltgUsiyZ-E.

- However, even the insurance game does not drive sales in a significant way. The partners’ front line staff informed us that it takes 15 to 20 minutes to properly play the game. They seldom have that much spare time during their fast-paced customer visits. Therefore, the staff usually plays the game too quickly, or do not play at all, especially when we do not remind them of it.

- At the end of the month, we visited all four distribution partners for a stocktaking of what we have learned so far in the first six months of the pilot, and to see if and how our sales and education approach needs be changed for better results.

- KAKR cooperative and BPR DBAL, the two most underperforming partners, continue to be concerned about the possible additional workload for their front line staff. Therefore, they prefer to stick to their current highly optional sales approach.

- With BPR BDAS, we agreed to change their sales approach from the previous unsupervised sales talk made by the field staff to a more controllable and stringent procedure carried out by the credit administration staff at the branches. At BDAS, every customer has to collect a credit check at the branch and cash it at a commercial bank to receive the loan amount. The SOP of BDAS have, therefore, been updated so that every time a customer collects a credit check, the administration staff also has to explain the insurance offer and give the customer an enrolment form. Only if the customer really rejects the insurance, the application is not processed further.
• In contrast, KKBS Cooperative decided to stick to its field staff based approach. The management reemphasized to their field staff that they are expected to deliver the insurance offer whenever they meet with a customer.

August 2014
• The readjustment efforts we made in July, started showing positive effects. Over time, we observed that KKBS field staff and the BDAS branch staff became more experienced in offering insurance. As the amount of support queries to Allianz keeps decreasing, we can say that the insurance sales talk is becoming one of their daily work habits. This greatly helps to stabilize sales.

September 2014

Bekasi, 8 September 2014

What happened today?

• A member of the project team visited BPR BDAL
• Their field staff reported that many customers cut them short as soon as they started talking about insurance. These customers said that they have had negative experience with insurance or have heard negative things about it, especially that the insurance agents are difficult to reach and that claims are not paid.
• Most of the bank’s customers are market traders. In one of the markets, one influential trader is an insurance agent for another insurance company. In this market, it makes little sense to start any sales talk.
• Another challenge the BDAL staff reported is that their time is too limited to properly explain the Allianz insurance offer in a consistent way. They are pushed by tight deadlines and need to finish their visits as soon as possible.
• However, there are also a couple of positive drivers why customers like to listen to the insurance explanation:
  a. The customers already know and trust the field staff
  b. The staff is able to adapt the insurance talk into the everyday language and living context of the customers
  c. Some customers already know quite a bit about insurance
  d. The customers are attracted by the affordable premiums

The most frequently asked questions by the customers are:

- “How to file a claim?”
- “What kind of insurance is this?”
- “Who is the insurer?”

What do customers know about Allianz?
- Most of them recognize Allianz from the Allianz Arena, the stadium of Bayern Munich, because they have seen it on TV.
December 2014

- The positive trend with BDAS and KKBS has continued over the last months, since July and August. While, there is little progress with the other two partners.
- At the end of pilot, BPR BDAS and KKBS Cooperative agreed to convert the pilot into a routine business activity and even agree to reinforce their efforts.
- For BPR BDAL and KAKR, we left the products open for sale but we will not offer any special sales support anymore. We don’t expect much sales coming from these two partners in the future.

Photo 4

Allianz project leader Yoga Prasetyo meets a women’s credit group to learn their view on the tick-box insurance offers
Lessons learned

1. Customer conversion works

The pilot has achieved its five percent conversion rate target. Two partners even achieved 15 percent and higher. With this, the pilot was successfully concluded, proving that upselling can work.

Customer conversion works particularly well with partners that have a similar vision as Allianz, i.e. of improving the overall value proposition to customers, with commission earnings only as a secondary factor. Such partners are open to making a real effort together with Allianz to engineer processes and sales talk in a way that reduces additional workload and is adapted to the context of the partner, its staff and its customers.

Telling from the very small telemarketing trial, there is a good reason to believe that this second “ignition stage” of a multi-phased customer conversion strategy can be successful.

2. Small size of pilot partners proved helpful

We found that our original assumption proved right that it would be easier to start a tick-box pilot with smaller partners, rather than with larger microfinance institutions. With smaller distribution partners, decision making processes and flexible operational adjustments based on a “learning by doing” basis were lean and easy. As we have started to approach larger partners for scale-up, the established tick-box track record will help in convincing them. Still, decision making processes at large partners clearly take much longer due to their size, their more elaborate governance and many other parallel projects. And, we haven’t even gone into actual large scale implementation with them yet.

We also found that a shared vision between distribution partner and Allianz is a decisive success factor. Such a shared vision again proved easier to build with smaller partners rather than with the “big guys”, even though the resulting business opportunity was also much smaller.

In a nutshell, to get a proof of success for the concepts like Allianz Indonesia’s tick-box project, working with smaller, more flexible partners makes more sense than approaching large-scale partners from the beginning. Larger partners are easier to convince and manage once a (small) proof of success has already been established.

3. Personal Accident proved to be the most popular of the three tick-box offerings

Designing the ideal product for the low-income target market is not easy because several factors need to be taken into consideration:

- Customer perspective:
  - Responsive to the perceived risks
  - Easy to understand
  - Easy to enrol
  - Affordable premium
  - Convenient collection mechanism
• Business partner perspective:
  o Minimal additional staff workload
  o Easy and quick to explain
  o Attractive incentive scheme
• Insurer perspective:
  o Limited product and system development efforts
  o Low operational costs
  o Long-term financial sustainability

The three tick-box products were certainly far away from meeting all of the above criteria. They were
more or less scaled-down versions of existing conventional products that were already offered through
other distribution channels. The reason for taking this “quick and dirty” road was again time
considerations. The time needed for developing new microinsurance products from scratch and
registering them with the regulator would have seriously delayed the tight project timeframe. After all,
some minor adaptations were made to take into account customer and distribution partner needs: Next
to lowering premiums to more affordable levels (leading to lower sums insured), the tenor of the tick-
box products was made flexible to be able to follow the tenor of the underlying loan. In conventional
business, the products were strictly sold on a one-year renewable basis.

From the three products, the Personal Accident offer by far proved to be the most popular. We attribute
this to the fact the product was affordable, that the sum insured looked high and that the product was
the easiest to explain. However, it is not certain that the Personal Accident product really addresses a
core customer need as accidental death and total permanent disability happen to be comparatively
infrequent events. There may have also been an element of curiosity to just test insurance in general at
play. Moreover, a significant part of the sales seem to have been driven by the close trust relationship
between the partners’ field staff and their customers. Purchases may, thus, have been relationship
driven rather than needs driven. After all, it is encouraging that several customers asked for proper term
life insurance and coverage for their children and extend family.

4. Seamless integration into existing processes and systems is a key

The tick-box pilot has successfully managed to closely integrate the marketing, enrolment and collection
processes into the existing workflows of the pilot partners. No new staff was needed and – after one or
the other adjustment - the additional workload for existing staff proved manageable. The existing credit
life business proved to be a good market as well as operations entry.

Another positive lesson learned is that the tick-box products do not require a major system upgrade at
the insurer’s end, if the microinsurance administration system is designed with customer conversion in
mind. This underlines the need to approach customer conversion strategically. The different sales stages
of customer conversion (mandatory, voluntary tick-box, telemarketing etc.) should be sketched out, at
least rudimentarily, from the very beginning.

5. Unclear “Micro-bancassurance” regulation prevents further efficiencies in the sales process

Due to lack of clarity of the current regulations relevant for microfinance, especially the BPR partners
were unsure if their staff was authorized to sell insurance on behalf of a licensed insurance company.
Therefore, they preferred to have the enrolment forms separate from their own loan application forms, in order to avoid physical evidence that in fact the MFI employees were soliciting insurance enrolments.

A clearer and more conducive regulation on this point would allow for an even closer integration of tick-box insurance with the underlying loans. This would further simplify the sales pitch and make enrolment easier, which in turn would help to boost sales.

The draft microinsurance regulation launched by the Indonesian Financial Supervisory Authority (OJK) already clarifies that sale of insurance by MFI staff is allowed as long as the insurance partner has sufficiently trained such staff. No independent agent licensing process would be needed under this so-called “Microinsurance Grand Design”. However, this draft regulation is still awaiting its enactment.

6. Shadowing the front line staff of partners helps fine-tune the sales process

One clear difference between the two successful pilot partners and the two less successful one was the job profile of their respective front line staff. We learned that lesson most vividly through several shadowing missions where we accompanied staff to the field.

The field staff of BPR BDAL and KAKR cooperative worked under very tight schedules. Every day, they were supposed to visit up to eight different locations. Under these circumstances, it is very difficult to add even the smallest additional work package (i.e. insurance) to their job description.

The same condition initially existed with BPR BDAS as well. At first, their field staff was supposed to explain insurance on top of their already busy schedules. Then, when the insurance promotion task was shifted to the credit administrators at the branches, who benefit from a fixed work location and a more lenient schedule, the situation rapidly changed for the better. Eventually, the BPR BDAS branch and field staff established an effective division of tasks: The branch staff would give the main sales pitch to clients and the field staff would take on any follow-ups and reminders with customers during the client visits.

Lastly, with KKBS the situation was again different. Here, the field staff that handled the insurance sales were not responsible for actual loan and savings collection. Their main job was only to win new loans and new savings accounts. This left the KKBS fields staff with significantly more time to look after insurance than at the other three institutions.

7. Awareness rising and product sales need to go hand in hand

While the insurance awareness among the low-income target market was found to be low, there was an obvious eagerness to learn more about insurance and try it out. This leads to a chicken and egg situation: Insurance awareness does not rise significantly without an opportunity to buy products. However, insurance products don’t sell, even if they are easily accessible, as long as they are not properly explained and the concept of insurance is not well understood. The conclusion is, therefore, that increased awareness and sales need to come as a package. This is what the pilot project tried to do to a certain extent by having a suite of three products at hand, coupled with diligent staff training efforts, posters, banners and the specifically designed insurance game. However, what is needed is further innovation in scalable low-cost awareness building measures that symbiotically tie into the sales and collection process.
8. Disconnecting insurance from loans will be the key for renewals and loyalty building

Although the tick-box pilot has now been converted into established business practice with the two more successful partners, one key challenge remains: Renewals! Both the mandatory credit life coverage and the voluntary add-on insurance are single premium products. In most cases the premium is deducted upfront from the loan amount. As soon as the loan expires, coverage ends.

Although customers could theoretically extend their tick-box cover by repurchasing the product stand-alone, and even if they may be reminded on renewals by SMS, it is highly unpractical for the customer and the MFI distribution partners. It would entail either the customer going to the MFI branch or the field staff coming around specifically for a small insurance sales transaction. Both options carry high operational or opportunity costs.

However, in order to foster long term loyalty to the Allianz brand and to provide uninterrupted insurance protection, an efficient renewal process is needed. Here, Allianz Indonesia banks most of its hopes on mobile money applications which have just started to make their appearance in Indonesia. Another alternative would be a yet-to-be-designed auto-debit solution that withdraws premiums from the customer’s savings accounts which they often hold with their credit institution.

Summary and recommendations

1. What worked well?

   • Winning distribution partners’ trust through initial credit life offering
   • Building a large-scale customer base with credit life, with a proven demand for further coverage
   • Achieving good conversion ratios and a promising outlook on telemarketing
   • Simple, flexible and low-cost sales process and operations

2. What needs further improvement?

   • Faster filtering of partners that have the right DNA for success
   • Products that are tailored more towards customers’ needs, e.g. term life and family coverage
   • Regulations that clearly allow MFI staff to promote and sell insurance on behalf of licensed insurers, with minimal licensing and training requirements
   • Efficient renewal process, e.g. through mobile money
   • Scalable low-cost awareness building that symbiotically ties in the sales and collection process

The customer conversion pilot of Allianz Indonesia can be called an encouraging success. It indicates that customer conversion can work if conditions are right and partners are aligned. The upcoming challenges are (a) scaling up the approach with larger partners and (b) arranging for efficient renewals.

Allianz Indonesia believes that the demonstrated conversion ratios, even at the 25 percent level seen at the best performing partner, are still below the maximum saturation level. With more adequate products, a focus on partners that meet the “partner success criteria”, and conducive regulations (for a fully integrated tick-box sales approach), conversion rates could be significantly higher.