Learning Journey

RedSol

Red Solidaria de Microseguros Rurales

This Learning Journey was created with contributions from Josh Ling (AMUCSS) and José Miguel Solana (the Facility)

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Project Basics

About the project

The Asociación Mexicana de Uniones de Crédito del Sector Social A.C. (AMUCSS), a not-for-profit organization, was established in 1992 by credit unions specialized in rural finance. The mission of the organization is to contribute to better financial services in rural areas by creating, strengthening, and expanding local financial institutions and services with a strong link to communities. AMUCSS supports a variety of institutions including a network of rural credit unions, cooperatives, and micro banks in different regions of Mexico.

AMUCSS has offered life microinsurance since 2005 on a small scale in partnership with private companies. Through this project, AMUCSS aims to establish an innovative delivery model to distribute microinsurance products to indigenous communities in remote areas in Mexico. The model calls for the development of a microinsurance network among rural microfinance, economic, and social organizations. This network is called RedSol. It deals with the delivery of the product, organizational training, marketing, management software (Tamazolin) and website development, education for consumers and operators, and applied research.

RedSol liaises between community organizations and the insurance industry. It helps the former understand the risk management needs of its members, and negotiates with insurers to develop and offer relevant products to the rural poor. RedSol is developing and refining various new products (repatriation certificate, remittance insurance, and health coverage) in addition to the life and agricultural microinsurance products already established. The life microinsurance product is a 1-year voluntary insurance, sold one-on-one, with premiums ranging from US$ 2 to US$ 41 and insured amounts between US$ 410 and US$ 8,195.

Diagram 1: RedSol’s relations and work

Integrating crossed responsibilities

- Insure and manage risks
  - Closed to rural organizations and deal with the insurance company
  - Know low-income people necessities
  - Different business model
  - Technical design of the products
  - Ad Hoc software
  - Agile management
  - Marketing
  - Organizations training
  - Financial education

- Know low-income people necessities
  - Social and physical proximity
  - Confidence
  - Information
Agricultural insurance

Vulnerability studies conducted by AMUCSS in 2009 and 2010 within the regions in which it works indicated that agriculture was the main source of income in a majority of households. Furthermore, livestock and agricultural assets formed a significant proportion of overall assets. Hence, it made sense to extend the life microinsurance programme to develop agricultural insurance for these clients.

At the same time, the government was interested in offering agricultural insurance. Mexican agriculture production provides a large majority of the food consumed in the nation. However, food production in Mexico has been constrained by climate, with low rainfall bringing frequent droughts and the proximity to the Gulf of Mexico bringing hurricanes and tropical storms.

In 1998 the Mexican government developed the “Fondos de Autoaseguramiento” (self-insurance funds). The scheme is administered by the government agricultural ministry through the government insurance company insurance company, Agroasemex. The insurance funds scheme requires farmers to form a group in which the premiums of the members are put into a fund. Claims for any of the members are paid from this fund, with reinsurance covering any shortfall. Through a history of communal or land-sharing arrangements, many of these group structures already exist amongst Mexican farmers.

The nature of the group structure design requires a level of scale for both insurance pooling and for the purposes of expenses being covered cost-effectively. As a result, the scheme operates very differently for large and small scale producers. Relatively few larger scale producers in the same locality or region can form a “fund” large enough to participate in the scheme. Small-scale producers are not excluded from the scheme, but its nature makes it difficult for them to participate. A very large number of small-scale producers would need to group together to ensure the fund has sufficient acreage to be financially viable.

The entity “RedSol Agrícola” was created by AMUCSS in 2011 to play a role as an intermediary. RedSol Agrícola recognized that facilitating the aggregation of many small-scale producers would allow those producers to participate in the scheme and obtain protection. These are the exact small-scale producers that AMUCSS aims to extend loans and rural financial services to, and whose vulnerability and income is highly dependent on agricultural production. RedSol Agrícola constitutes one fund within the Agroasemex scheme. The premiums are set by Agroasemex, and depend on the risks covered, crop type, and the region.
<table>
<thead>
<tr>
<th><strong>Project Summary</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Name of project:</strong></td>
</tr>
<tr>
<td><strong>Start date:</strong></td>
</tr>
<tr>
<td><strong>Length:</strong></td>
</tr>
<tr>
<td><strong>Country:</strong></td>
</tr>
</tbody>
</table>
| **Product:**        | Implemented: life  
|                     | Ongoing implementation: debtor, certificate of repatriation, remittance insurance, agricultural insurance  
|                     | Scheduled implementation: health, pension |
Project Updates

Key indicators

The performance indicators presented are as at 31 December 2012, and focus on life microinsurance. As at this date, the RedSol network comprised 60 institutions.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Period 1: (Jan12-Dec12)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of policies sold</td>
<td>47,749</td>
</tr>
<tr>
<td>Total number of beneficiaries</td>
<td>43,614</td>
</tr>
<tr>
<td>Percentage growth (over previous 12 months)</td>
<td>26%</td>
</tr>
<tr>
<td>Percentage of renewal*</td>
<td>9%</td>
</tr>
<tr>
<td>Number of claims</td>
<td>372</td>
</tr>
<tr>
<td>Percentage of claims rejected</td>
<td>6%</td>
</tr>
</tbody>
</table>

*based on renewal in the month of expiry.

Having launched in April 2011, the RedSol Agricultural fund continued to expand its operations to cover 1,985 producers and 2,797 hectares by 31 March 2013. An overview of the portfolio is shown below. It comprises insured land for coffee, corn, and peanut crops.

<table>
<thead>
<tr>
<th>State</th>
<th># Producers</th>
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</tr>
<tr>
<td>Total</td>
<td>1,985</td>
<td>2,797</td>
</tr>
</tbody>
</table>

[1] *Exchange rate USD-MXN = 12.2 as of April 2013 is used throughout the text.
What's happening?

As of December 2009

RedSol institutionalization

AMUCSS has distributed life microinsurance since 2005 in partnership with a broker, Grupo SEP, which connected it with the insurance company Zurich Seguros. By 2009, AMUCSS had developed significant experience in insurance and decided to integrate the broker’s functions into AMUCSS. For 6 months, it worked on the institutional design, studied the different legal options and finally decided to create an insurance intermediary. The social enterprise “Red Solidaria de Microseguros Rurales” (RedSol) was created in September 2009.

Strengthening of the distribution channel

RedSol established commercial agreements with Zurich Seguros, the insurance company which carries the risk for the life microinsurance product. It also started working with other insurers for other microinsurance products. It strengthened its partnerships with the rural organizations. By December 2009, RedSol integrated 69 affiliated institutions (microfinance, economic and social organizations) and 143 points of sale.

Sophistication of the administration and operation processes

Adjustments were made to facilitate the involvement of local organizations in the following processes: insurance applications, premium payments and transfers. Additionally, RedSol had to institutionalize new processes related to receiving premium payments, sending payments to the insurance company, and registering movement in accounting and administration. The Tamazolin, an information system for microinsurance administration, directly accessible online, was designed to handle these processes.

Strengthening of the training activities

The one-on-one sale methodology of the life microinsurance product meant that RedSol had to train promoters at rural organizations. RedSol designed and conducted a training workshop on sales techniques and products.

Design of a financial education strategy

Given the resistance to insurance of the target population, RedSol began to work formally on financial education. AMUCSS took the decision to design a global strategy that integrated key matters such as future provision, project budgets, saving, credit and protection, while respecting the diversity of rural organizations’ profiles.

As of July 2010

Expansion of RedSol’s network: integration of new organizations

From January to July 2010, RedSol kept looking for new members and integrated eight new rural institutions and 11 points of sales, resulting in a total of 77 affiliated institutions and 155 points of sale.

Multiplication of training activities

The 30 staff members of the eight new affiliated organizations were trained. In addition, five
regional workshops on marketing were given to 94 employees.

**Design of new products**

New life insurance products were developed: credit life insurance for the microfinance and economic institutions and remittance insurance. RedSol also created a repatriation certificate. The design process for each product was different. The credit life insurance characteristics were defined between AMUCSS and an important farmer organization that, among many others, had requested this product. They were submitted to Zurich, which offered a good price and the settlement was concluded. AMUCSS had previously experienced a failed project involving remittance insurance and a repatriation certificate, therefore RedSol already had a specific idea of which type of products were required. A former fellow of RedSol designed the products and RedSol invited various insurers to bid for proposals. Three insurers answered the proposal and only Zurich followed up on the process. As for the agriculture insurance, RedSol decided to hire an agricultural economist to design an Agriculture Insurance Fund. The economist benefited from free assistance from AGROASEMEX, the Mexican National Insurance Institution, which develops and deals with rural risks solutions.

**Design of a specific insurance education material**

As part of the financial education strategy defined at the end of 2009, RedSol, in collaboration with AMUCSS, designed a manual on risk administration.

**As of December 2010**

**Second meeting of operators of the microinsurance distribution network**

These meetings aim to build the loyalty of the distribution agents. They are an opportunity to generate an identity with both institutions and participants. The set of activities allows experience sharing among different operators. One of the lessons that emerged from this interaction was the value of the agents’ knowledge about the reality for final customers, and their work spreading understanding of the benefits of microinsurance.

**Classification of institutions according to level of services needed (see lessons)**

The participants identified a need to differentiate the level of services provided depending on the needs of each partner organization.

The challenges faced in prospecting new organizations to join the network showed the need for a more structured strategy to be implemented with different organizations, so that resources could be better used in a more efficient way. Among other things, different organizations have different missions and visions that range from being highly commercially oriented to highly socially oriented, and everything in between.

**Launch of remittance and repatriation products with the corresponding training to partner institutions**

The design and negotiation of these products took longer than expected due to the insurance regulation, since the products have components relevant to both the insurance markets in Mexico and the United States. There were no clear answers from insurers showing an interest in working these products which extended the product design phase.
Training of promoters and financial education workshops

In total 19 workshops with nine different intermediaries were conducted. Of these workshops, three were conducted with the promoters and 16 were conducted directly with members of organizations.

The workshops were designed to be more efficient: the workshops were consolidated and fewer workshops were organized than initially planned.

Financial education brochures were printed with topics on issues such as savings, credit, microinsurance, budget, and remittances.

Awareness-building activities were carried out at organizations in order to promote the payment of claims through savings accounts, with the aim of achieving higher levels of banking among the recipients.

As of June 2011

Development of different levels of services for the differentiated organizations

This strategy built on the analysis of institutions and was intended to be implemented throughout 2011. AMUCSS planned to support the classified organizations depending on their specific needs and the potential penetration and customer service that the organization can provide.

Launch of the Agricultural Insurance Fund

After having accomplished the fund design and legal registration (see more in the lessons and related documents), a ceremony was held in April 2011 to establish the agricultural fund, with the participation of farmers in the Mexican States of Chiapas, Veracruz and Puebla.

Follow up with partner organizations (particularly MFIs) on the sale of the remittance and repatriation insurance

Training and monitoring was carried out on the marketing of remittance and repatriation certificate products given that there were not yet any sales. RedSol considered alternative approaches for these products.

Collaboration with the Migrant Institute of Oaxaca to develop the distribution of group microinsurance for migrants from this Mexican state to the US

RedSol began to search for new distribution channels for migrant products. A strategy was developed to promote the group microinsurance products at the clubs of migrants in California.

Implementation of the study on health services and practices in rural communities

The health study was the first component of the exploration work for the development of a health product to be distributed through the RedSol. The activities focused on identifying the existence and utilization of health services, in order to design an insurance product that can be complementary to the current supply of health services, taking into account the perceptions of final users and their current health practices.
As of June 2012

**New forms of the individual life insurance product**

The work to understand the different types of institutions within the RedSol network led to a better understanding of how to meet their respective needs. The individual life insurance product is now offered in various forms, designed to meet the demands of the various institutions within the network, the orientations of which might be more social or commercial.

As well as being offered to clients on the original individual and voluntary basis, the life insurance may also take the form of loan portfolio coverage for the institution, or group coverage for the employees of an institution. In early 2012, car insurance was also introduced in the network as a means of meeting the needs of some of the institutions that had clients requesting the product.

**Financial Education strategy**

In 2012 the financial education team commenced a series of financial education workshops to train the managers of the financial institutions within the AMUCSS network. The “training of trainer” approach aims to improve the outreach of the financial education programme.

In the first half of 2012, a total of eight workshops were run, resulting in 160 promoters being trained in financial education, some of whom would become trainers for subsequent financial education sessions to be run in the communities in which they work.

The financial education team continues to run workshops to train future trainers.

As of March 2013

**Family Insurance**

At the fourth meeting of operators of the microinsurance distribution network in October 2012, RedSol launched a Family Life Insurance product. The product covers the policyholder, their spouse and two children for sum insured amounts of US$ 2,460, US$ 1,640, US$ 1,230 respectively, for a premium of US$ 11.23.

The subsequent rollout of the product did not happen until 2013, when it was decided to extend coverage to include any number of children within the immediate family, accompanied by a subsequent increase in premium to USD $12.38. The revised product will be launched in April 2013.

**Expansion of Agricultural fund**

Having launched in April 2011, the RedSol Agricultural fund continued to expand its operations to cover 1,985 producers and 2,797 hectares by the end of March 2013. The fund is made up of producers of coffee, maize and peanuts in the states of Puebla, Chiapas and Veracruz.
The fund has obtained permission from Agrosemex to extend activities within further communities in the three states in which it already operates, as well as communities within the states of Oaxaca and Guerrero.

As at March 2013 the fund employed one full-time field technician, based in the state of Puebla. AMUCSS does not have an office in Puebla so the technician has been based within the offices of the cooperative Tosepan, the largest client of the fund. While the majority of the work of the technician will be with this client as a result, the technician role serves all clients of the fund, regardless of whether they are located in Puebla or not.

Recruitment has begun for a technician to be based in Chiapas. This person will improve contact with clients and conduct promotion activities. This is a part of a 3-year strategy to help the fund reach a level of sustainability. Unlike in Puebla, however, AMUCSS plans to acquire or rent local office workspace.

Financial Education strategy

During 2012, the financial education team of AMUCSS trained a total of 58 individuals as facilitators of financial education material. These individuals are from the various institutions of the AMUCSS network, and also from the Sierras Verdes food security and rural development project supported by AMUCSS in the state of Puebla.

Through these 58 facilitators, a total of 1,700 individuals received financial education training, 900 within the AMUCSS network and 800 within the Sierras Verdes project.

The financial education team also created 14 recordings, voice and video, to be played in the branches of the AMUCSS financial network.

Third and Fourth meetings of operators of the microinsurance distribution network

For the third and fourth consecutive years (2011 and 2012), RedSol organized a 2-3 day retreat for its network of microinsurance operators. This strategy appears to remain an effective way of engaging the distribution agents, sharing experiences and lessons, and providing training and information on the future strategy of the network.

As of August 2013

As at the middle of 2013, sales of the Family Insurance product were as follows:

<table>
<thead>
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<td>1,985</td>
<td>2,797</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Month</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>11</td>
</tr>
<tr>
<td>April</td>
<td>76</td>
</tr>
<tr>
<td>May</td>
<td>83</td>
</tr>
<tr>
<td>June</td>
<td>54</td>
</tr>
<tr>
<td>Total</td>
<td>224</td>
</tr>
</tbody>
</table>

Learning Journey: August 2013
With the support of the Fellow, RedSol implemented a monthly process for collating data and monitoring key performance indicators on the life insurance portfolio. Upon viewing the sales trends by sum insured, a decision was made to cease sales of the $5,000 sum insured product, the lowest sum insured of the options available. The total sales of the product had been on a decrease in recent years and a decision was made to drop this option, and instead focus on converting these sales to the $10,000 sum insured option.
Project Lessons

On rural poor risk management, practices of protection and necessities

There is a predominance of informal financial practices to prevent and handle shocks. In order to answer the key question about risks management of low-income population, AMUCCSS conducted a survey about vulnerability of rural families in 1,000 households at the beginning of 2009. This research demonstrated that the use of formal financial practices is minor. 78 per cent of the surveyed households declared that they had never used formal financial services. 65 per cent said that it is better to save with crops or animals, while only 35 per cent preferred cash. This is linked to the multi-functionality of animals and crops: they can be eaten or sold. Indeed, out of the households who said that they saved (in kind and cash), 56 per cent of them did so to prevent a daily life risk. Only 3 per cent had insurance and 73 per cent had never heard about insurance products. Even if informal practices to prevent risks were identified, only a minority of families were adequately prepared for them. Generally, rural families react when events occur: 39 per cent of the households asked for a loan (most of them in the informal sector: more than 90 per cent) and 26 per cent said they consumed crops they had planned to eat or sell later. It is important to point out the combination of practices, since only one solution is rarely enough.

Risks related to agriculture and health are the most important and recurrent risks faced by rural households. The survey showed that shocks related to agriculture and health are the tougher risks faced by rural households: 52 per cent declared that the most important risk they had faced in the last three years was connected with agricultural activity and 46 per cent with health.

A significant proportion of low-income people who ask for formal loans, do so to deal with financial shocks. The survey revealed that in rural poor areas, the use of formal credit is frequently connected with the occurrence of a shock. 34 per cent of formal loans are used to react to a shock (health, agriculture, death, repayment of another loan) while only 27 per cent of them are used for an economic investment and 20 per cent for housing.

Formal savings are insufficient to respond to the shocks faced by rural households. Even for those with formal savings accounts (5 per cent of the sample), the average cost of a shock (US$ 155) faced by rural families is generally higher than their available cash savings. Families used a combination of different mechanisms to deal with the most serious problem they faced in the past 3 years, including: consumption of crops (31 per cent), loans (29 per cent), unplanned sales (15 per cent), interruption of livestock farming (7 per cent) labour migration (5per cent), pawning (3 per cent), interruption of a credit repayment (3 per cent), and taking children out of school (2 per cent).

On the formal insurance products versus informal schemes

Informal solidarity schemes are considered by community as reliable support mechanisms in Mexican rural areas. In rural areas where the offer of financial services is still limited, informal schemes of protection remain key practices to prevent and mitigate risks. Based on the survey and interviews with the target population, it was found that community and family solidarity mechanisms are widely used as informal mitigation practices. To deal with the most important crises faced in the last three years, one in four households relied on help from their family. People rely on informal loans (mostly interest-free) that can immediately be accessed as well as “gifts”.

Learning Journey: August 2013
6 per cent of the surveyed households also mentioned community solidarity actions in a shock resolution. This occurs particularly in the case of housing destruction caused by weather events. Some municipalities grant informal economic compensation and some communities organize collective rebuilding. In case of contingency, microfinance institutions are not used because they are considered too slow to grant a loan.

**The participation of the various actors in product development can lead to greater acceptance by the channels and the target population.** In the case of the initial microinsurance product the different member organizations of the network did not participate in the product design. Only AMUCSS and the broker designed the product. They jointly determined the premiums on the basis of the income of the target population and the viability of the product, and adapted the processes to comply with the law and regulations, since at that time there was no microinsurance-specific regulation.

In terms of the remittance-linked products, focus groups were conducted and the inputs from managers and directors of partner organizations confirmed a need for providing such services through their organizations. Credit life insurance was demanded by the organizations.

In the meetings of the members of the RedSol, directors, developers, and managers of organizations participate. They discuss vulnerability and risk and participate in workshops about products and sales challenges. These meetings have allowed for the integration of participants’ opinions into the product design and processes.

**On the relationship between education and insurance culture**

**Marketing and one-on-one explanations are not enough to build an insurance culture.** It is important to rely on local well-trained promoters, but it is not enough. The low renewal rate highlights this point. Even if microinsurance is simpler than traditional insurance, it is still sophisticated for rural people. Contrary to formal loans for example, insurance can’t be compared to an informal practice they already use. The impact of the marketing material designed by RedSol (currently only banners and flyers) seems inappropriate for an illiterate target population. Based on interviews with clients of the life microinsurance product, even those who recalled having received an individual and extended explanation from a promoter, did not have a good understanding of the product.

**Satisfied clients can help build an insurance culture in a community.** It has been observed that an efficient way to build an insurance culture is satisfying a beneficiary by paying a claim. Neighbours and other clients therefore also find out about their experience. It is not something that can be scheduled but it is a phenomenon that is important within the local organizations affiliated to RedSol. It was observed that publicizing a claim settlement was particularly useful.

**A certain level of financial education may be a prerequisite to building an insurance culture.** RedSol, with AMUCSS, started working on an insurance education program in 2009. They hired a marketing specialist to design the programme. The Microfinance Opportunity’s manuals were translated from English to Spanish and directly piloted with microinsurance clients. The results were not as expected. Beyond a need to adjust some aspects to the rural context, the main problem was the lack of a general financial culture. It was very difficult to deal with protection and insurance mechanisms with people who were not familiar with concepts as budgeting, saving, economic projects, and loans. This conclusion implied a considerable extension of the initial program. The AMUCSS education was extended to a
complete financial education programme for rural low-income people.

**Given the different capabilities of rural institutions, customized financial education programmes have to be developed to adapt to their needs and those of the final customers.** The education programme initially focused on designing and adapting manuals from Freedom from Hunger (whose pedagogic approach was well known) for the rural audience. However, not every organization affiliated to RedSol had the institutional capacity to carry out a complete programme based on manuals. This points to the need to develop for the capacity of the staff of affiliated institutions. To fit with the capabilities of each organization, AMUCSS determined a financial education strategy that took into account the diversity of rural organizational profiles. Four levels were identified and organizations can choose which level they will work on:

1. Educational marketing and information campaigns (radio, flyers)
2. Financial education campaign on specific products
3. Financial products “with education” (“saving/microinsurance with education”)
4. Integration of financial services and educational services (the most complete, manuals-based methodology)

RedSol assumes that, initially, only a few organizations will choose to work directly on the fourth strategy. However, every organization that desires to be trained on it will be able to do so.

**Dissemination of financial education and its conversion into sales**

Efforts have been made by the AMUCSS financial education team to evaluate the increased understanding of insurance and financial products as a result of the training provided. Exit interviews are conducted amongst participants of the financial education sessions. In the majority of cases, participants display an understanding of how financial products function and how they could be applied to their individual situations. Although participants are not tracked on an individual basis, the overall rates of insurance uptake still lag behind the overall rates of individuals that state a desire to purchase insurance at the financial education sessions.

In 2012 the Financial Education team commenced a series of financial education workshops to train the managers of the financial institutions within the AMUCSS network. The “training of trainer” approach aims to improve the outreach of the financial education programme.

During 2012, the financial education team of AMUCSS trained a total of 58 individuals as facilitators of financial education material. These individuals are from institutions in the AMUCSS network, and also from the Sierras Verdes food security and rural development project supported by AMUCSS in the state of Puebla.

Through these 58 facilitators, a total of 1700 individuals received financial education training in 2012, 900 within the AMUCSS network and 800 within the Sierras Verdes project.

The financial education team continues to run workshops to train future trainers as a means of achieving scale in the dissemination of the education material.
On the organizational model

A model that enables small organizations to become familiar with microinsurance concepts and activities allows better interaction between rural organizations and insurance companies. On the one hand, RedSol carries out knowledge investment for many little organizations institutionally too weak to learn about insurance, insurance products and too small to negotiate with insurance companies. On the other hand, it offers economies of scale to insurers that are attracted by the rural market, but are not familiar with it. Negotiations on product characteristics and prices are well balanced because power is shared between the different stakeholders. The structure facilitates the direct participation of the local organizations in the decision-making process.

The events that RedSol organizes for its members and partners generate an identity of being part of a distribution network among the institutions and its field staff. In addition, valuable information from the field allows for the exchange of best practices to help RedSol operate more efficiently. The event organized in Huatulco (Mexican beach destination) serves as motivation for the operators of the microinsurance distribution network. The exchange of information and experiences between operators of different organizations helps identify best practices in the distribution of microinsurance, as well as solutions for local problems faced by organizations in their activities. These events are an opportunity to strengthen the branding of RedSol, which encourages the loyalty of organizations in the network at two levels: (1) operators who want to distribute the products developed by RedSol, generating pressure for their organizations and (2) the institutions, for whom the event helps motivate its staff.

During the 2012 event in Ixtapa, sessions were also held to launch new strategies and products in the presence of the RedSol network members. A representative from Zurich introduced the new family life insurance policy, describing the features and asking for initial feedback. One of the comments made was that coverage was limited to just two children, a feature that was eventually changed in the product in 2013. In a session diverging from the theme of microinsurance, Zurich covered the cost of a motivation speaker to present to the attendees. This session was also well-received.

Synergies between the different organizations belonging to AMUCSS has increased the number of promoters of the business of RedSol. AMUCSS created two entities for two financial activities: RedSol for the distribution of microinsurance and Envios Confianza for remittances. An extended sales force that can collaborate to promote mutual activities with staff of the two organizations has been able to generate commercial activities. This has allowed RedSol to have better coverage of potential partners and give better services to partners.

Furthermore, selling both insurance and remittance products allows economies of scales of one product to support the other. The business case for microinsurance is increased not only through reduced costs and shared overheads, but also through the potential for remittance and insurance products to be sold to clients in a complementary manner. RedSol has been developing migrant insurance products that could be sold to the recipients of remittances to protect their remittance income in the event of the death of the migrant.

Providing insurance products for the risk needs of partner institutions can create loyalty. Originally RedSol was designed to work only as an insurance broker, however, as a result of the experience it gained in the field of insurance, the network took on other roles, like offering insurance products to cover the risks faced by its partner institutions. RedSol is
working with an insurance broker to provide additional insurance products such as business insurance, car insurance, and life insurance for employees and directors. The partner institutions appreciate these services as added value to the pure distribution of microinsurance products.

**As the industry evolves a new business models to deliver microinsurance arise, building loyalty amongst distribution partners is increasingly important.** In a highly competitive environment several business models are emerging to provide microinsurance. Several brokerage models have appeared in Mexico, and insurance companies are also starting to work directly with some organizations.

The institutions that form the RedSol microinsurance network have no obligation to continue selling RedSol insurance products. Creating loyalty with partner organizations has become an important activity within RedSol.

To date, loyalty has been sought based on the following distinguishing factors of RedSol:

- RedSol seeks to work in rural regions in which there is currently no insurance on offer. Not only does this create a first-mover advantage, but it gains respect from the community.
- Through the AMUCSS network, RedSol offers financial education to its partners and their clients.
- Financial education is offered both in Spanish and some of the indigenous languages native to the rural areas in which it works.
- Trainings and team events are offered to the staff and promoters within the rural financial institutions. In October 2012, RedSol held its fourth annual event in the beach resort town of Ixtapa. This strategy appears to remain an effective way of sharing experiences, lessons, training, and information amongst the distribution network.
- RedSol (with the cooperation of Zurich) aims to differentiate its products as the most affordable of its type on the market.
- Sales force incentives provide prizes to individual sellers and organizations that achieve the most sales within a specified period of time.

**MFIs and rural financial institutions can provide a solid platform for the distribution of microinsurance in rural areas but still face particular challenges.**

As a network of rural financial institutions, and indeed as a part of the larger AMUCSS group that also has its own network of rural microbanks, RedSol has a number of advantages through its choice of distribution channels and partner organizations.

- By using rural financial institutions as a distribution channel, RedSol has access to an existing portfolio of clients, therefore bridging the difficulties to reach scale in rural areas that are sparsely populated.
- As a product that requires the client to be informed about its features (sum insured, coverage, exclusions etc.), it is often easier to sell microinsurance through a financial institution than a banking correspondent. Financial institutions have existing client relationships, and experience in explaining complicated financial products to their clients. Insurance can be explained in the context of how it complements other financial products. On the flip side, however, it should be noted that given the range of products being sold by a financial institution, insurance is not always the top priority.
- Microinsurance is complementary to other products offered by financial institutions.
• AMUCSS already conducts financial education sessions (including insurance education) within its own microbanking network.

Rural financial institutions have knowledge of rural financial markets and clients that nobody else does.
Rural financial institutions know and understand their region and market better than any outsider does. Such an institution has the knowledge (and often data) of local social behaviours, habits, and economic levels. For an insurer or intermediary that has not worked in the area, this information is invaluable when creating products and services that meet the needs of the community.

On the effectiveness of technology

Small organizations need a unique information system that is simple and easy to implement. This system can become an incentive for organizations to join the network given the economies of scale. In order to homogenize and secure the administration of sales, premium payment, premium transfers to the insurer, and the registration of movements between local organizations, in 2006 AMUCSS[1] set up an information system for microinsurance administration: Tamazolin. The features of this system include scanning new policies and recording basic information about clients. Tamazolin enables the immediate verification and validation of information for RedSol, which carries out the central administration of the system. In the past, organizations sent all sold policies to AMUCSS by the end of the month. Beyond the security factor, it was too expensive and time-consuming to send back forms with errors. After some adjustments, Tamazolin works in remote areas with low Internet connectivity. Rural organizations are often particularly interested in affiliation with RedSol because of the support provided by the information system. Some organizations complain about the additional work generated by scanning of policies. New solutions have to be found to offer simpler mechanisms.

[1]RedSol was not created yet.

On administration, operational processes and project sustainability

Building the commitment of local organizations to deliver microinsurance is vital to improving access of rural people to insurance products. The low insurance culture is a phenomenon that particularly affects rural areas in the country. A large part of the staff of local organizations affiliated to RedSol was paying less attention to the promotion of microinsurance than the promotion of other products like credit. There is a significant difference between the number of loans granted and insurance policies sold each month in most of the organizations where life microinsurance is not automatically sold with credit. It is necessary to identify the reasons for low motivation in order to strengthen the commitment of the local organizations’ staff.

In the absence of incentives, sales force has little motivation to increase microinsurance sales levels. For a long period of time, sales personnel did not receive any incentives to sell microinsurance policies. On the contrary, they were penalized for not having reached their goals on credit’s sales. Therefore, most of the time, there was no motivation to promote microinsurance.

Working with Zurich, RedSol has developed an incentive scheme for its insurance sellers. Each quarter, the top three sellers in the RedSol network receive a prize. In the last quarter
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of 2012, the top prize was a trip for two to a Mexican resort destination. Furthermore, the institutions with the highest sales receive gifts such as coffee machines that can be placed in their offices. Each seller is also placed into a raffle, so that even those from institutions with a smaller client base have an opportunity to win a prize. The raffle draw, done by Zurich, is broadcast live across Skype to the all institutions. Results suggest that sellers have managed to increase sales by up to 30 per cent just 12 months after the incentive scheme was introduced.

**It is difficult for organizations that don’t belong to the traditional insurance sector to generate interest amongst insurance companies.** RedSol has faced difficulties in bargaining with insurers for the introduction of new products. The life microinsurance product, which RedSol first introduced, attracted insurance companies. However, they were reluctant to offers other products where the characteristics were not defined by them, but by RedSol. RedSol has not clearly identified the reasons for the insurers’ low interest. The hypothesis is that they doubt that other more specific or sophisticated products can be profitable. The institutional culture of RedSol may be an obstacle for insurers. RedSol noticed that a privileged relationship or contact with a key member of the staff of an insurance company is decisive. Nevertheless, the mechanisms used by the rural insurance network may not be adequate for approaching insurance companies. Government-supported microinsurance programmes designed to target low-income people may be more attractive for the insurance sector.

**The microfinance industry suffers from high staff turnover. This makes training activities a risky and expensive investment.** One of the main risks faced by RedSol is the rotation of the organizations’ staff. Employment competition in the rural financial sector, particularly with the development of commercial microfinance institutions in rural areas, is getting higher. Staff members from institutions with a social mission, like the institutions affiliated to RedSol, are generally attractive because the investment in training is higher than in other markets. This is exacerbated by the fact that salaries in these organizations are generally lower than elsewhere. Presently, RedSol doesn’t have a monitoring tool to follow this issue. However, in addition to existing training activities, it is introducing an online training program in order to reduce costs and make training more sustainable.

**A mechanism is needed to assess new institutions, in order to ensure the sustainability of the network.** RedSol integrates many organizations whose microinsurance sales rates are low or even non-existent and that show a lack of interest in developing their insurance activity. There is a need to develop an assessment mechanism to ensure that the financial and operational capacity of new organizations is adequate, and that their motivation and approach is aligned with the interests of RedSol.

**A combination of voluntary and collective (mandatory group) spread income to Redsol over time of RedSol. This strengthens RedSol’s financial sustainability.** RedSol initially tried to work only with voluntary products, which have a less stable revenue stream and require a greater investment of time and work with partner organizations. However, experience with group products has shown that they can be a way to achieve scale and create a steady income flow for both the insurer and the network.

**The range of services that RedSol provides to the insurer and its partners requires RedSol to develop the capacities of its personnel of the network.** However, not all specialties will be developed within the network, and these can be provided with the support of external consultants. RedSol conducts a range of operational processes both for the insurance company as well as for the diverse distribution channels, so the internal staff of RedSol must develop its capacities both in technical insurance knowledge and in analysis of processes,
technology, promotion, and training. However, RedSol cannot develop deep technical capabilities in specific issues such as pensions and agricultural models, so in these cases the network can work with external consultants. This allows it to maintain a more flexible cost structure that can be adapted to the demands of organizations or actuarial associates.

On the organization’s profile and sales

Compared to other types of rural organizations, microfinance institutions seem to have more appropriate sales methods and skills to distribute microinsurance in the rural context. AMUCSS observes significant differences in sales results between the different affiliated institutions: farmers associations, social organizations like women organizations, and microfinance organizations. For the moment, microfinance organizations register the higher sales levels. This is likely due to their experience in offering financial services and their methodology and their staff expertise in selling financial products.

Organizations that collect savings are particularly strong in distributing microinsurance. They have experience in promoting a service that people usually do not initially desire. The interest of organizations that only grant loans, on the other hand, is more likely to be restricted to debtor’s life insurance. A social organization, which has little experience in offering financial services, doesn’t have the processes necessary to sell financial products to its members. Organizations using decentralized methodologies, like some microfinance institutions, get better results than those that only do office work. As a result of this understanding, an intermediary like RedSol can adapt its services to members, offering diversified products and tailored follow-up and training.

Chart 1: Sales according to the profile of organizations

To develop a distribution network for microinsurance it is necessary to know the institutional strength of partner organizations. It was necessary to identify the service needs and levels of coverage (in proportion to the total client portfolio) of the partners, to define and differentiate a strategy for each partner organization. 70 per cent of the sales of RedSol came from 11 institutions (out of a total of 82). It was decided to refine the number institutions served, leaving only 55 institutions, with the aim of streamlining financial resources and time, as well as to provide better service to partner institutions. This strategy has helped RedSol to use its capacities more efficiently and focus on organizations that have a greater potential for the distribution of microinsurance.

RedSol developed the following dynamic classification of the network partners:
RedSol has seen that the construction of a distribution network in microfinance must start by acknowledging institutional differentiation and the level of institutional stability as a basis to determine their ability to get the product to low-income families. This means knowing each of the institutions in detail and monitoring their evolution. This has resulted in a professional system of prospecting for partners. This activity generates a cost, however financial efficiencies are gained through only working with organizations with better prospects of success.

**On the development of a health insurance product**

While developing a health product it is important to take into account the public health programme, and to bear in mind the fact that the supply of health varies by geography. Health insurance should complement existing access to health services. AMUCSS and RedSol have been working on a study on the reality of health services in rural areas in Mexico and how these services are likely to develop in the next few years. This study has shown the wide range in health services currently available. It points to the possible duplications of a traditional health insurance product, similar to those designed for upper social classes. The research was conducted in collaboration with the insurance company, so that its staff can incorporate the lessons into the design of the health product. The study results indicate a need for products that address the cost of transfer to health centres, or the loss of income during treatment.

**On the growth of the agricultural fund**

It is easier to build scale by selling insurance to existing groups of individuals with homogeneous risks. The agricultural scheme run by Agroasemex is similar to a mutual self-insurance pool in which groups of farmers subscribe to the scheme. The RedSol agricultural fund subscribes groups of very small-scale farmers to its larger fund, to create the scale necessary to make the scheme sustainable.
RedSol Agricola promotes subscription to the fund to farmers in existing groups and associations, such as cooperatives or groups seeking certification of organic produce. This has proved highly effective to build the scale of the fund and rapidly disseminate training and information.

**Growth of the agricultural fund requires upfront investment.**
The nature of an indemnity insurance product requires field inspections to be made to identify the value of the insured amount, and the approval and verification of the amount of any claim. RedSol has dealt with this issue by placing a field technician in the state of Puebla, the state that makes up the largest proportion of the current portfolio.

As the next stage of expansion continues, RedSol are recruiting a field technician in the state of Chiapas. As the portfolio continues to grow human resources are needed not only for promotion and training activities, but also to assist in the contracting and evaluation process of new groups brought into the fund. Furthermore, possibility catastrophic product runs the risk of infrequent but large claims. In the event of a large number of claims, significant additional human resources will be needed to make indemnity assessments of the losses. This is a potential issue that has been identified but that the fund has yet to face in reality.

**The field technician has an important role to play, as he or she is in the field and closer to clients.**
The technician of the fund is a team member based in the field that assists with promotion, field inspections and general assistance in the fund’s activities. As of March 2013 the fund employed one full-time field technician, based in the state of Puebla. AMUCSS does not have an office in Puebla meaning that to-date, the technician has been based within the offices of the cooperative Tosepan, the largest client of the fund. While the majority of the work of the technician will be with this client as a result, the technician role serves all clients of the fund, regardless of whether they are located in Puebla or not.

The importance of being in the field, close to the clients should not be underestimated. The Mexico City based manager of the fund currently works one week of every month from the Oaxaca office. Recruitment has begun for a technician to be based in Chiapas. Unlike in Puebla, however, this will require the acquisition or rental of a local office workspace.

The increase in field-based staff will not only serve to improve contact with clients and promotion activities, and maintain efficiency in assessing losses after weather events. This is a part of a 3-year strategy to help the fund reach a level of sustainability.
**Next Actions**

For the remainder of the year 2013, RedSol has planned the following activities:

- Strategy revision of the design and promotion of the products for migrant workers (remittance and repatriation insurance), including the idea of linking the products together
- Implementation of the commercial strategy differentiating distribution partners
- Continuation of the financial education training of trainers amongst institutions and regions that were not reached during 2012
- Implementation of monthly monitoring of an insurance portfolio performance indicator dashboard
- With the assistance of the Fellow, investigation into a product that promotes long-term savings linked to insurance
- Consolidation of the existing distribution network
- Continuation of promotion activities
- Investigation into and development of a health insurance product, in conjunction with Zurich
- Agricultural insurance fund: start of activities in the Mexican states of Guerrero and Oaxaca; expansion of activities in Veracruz, Chiapas and Puebla
- Investigation into process and cost improvements of the agricultural fund, including the possibility for a parametric index insurance product