Interview with Allianz Life Indonesia and VisionFund

**Question:** Can savings-oriented insurance products be accepted as surrogate for savings products from MFIs without deposit license?

**Answer VisionFund:** Asset accumulation is really important for MFI clients but an insurance product is only useful when clients are able to maintain the discipline on regular premium payment. Still, a more flexible insurance product would be preferred to a deposit taking license.

**Answer Allianz:** Savings related insurance has a future as it meets an evident demand. The difficulty with TAMADERA was that duration was too long, premium payment was not flexible enough, and the product was not able to adjust to different savings needs of clients. Long-term saving product for low-income groups should be able to respond fluctuations of the household income.

Collecting the premiums has been proven to be challenging for the VisionFund, but also managing microsaving has increased the administrative burden for Allianz. Working with intermediaries who have deposit taking license is therefore preferred. Should a product like TAMADERA would scale up to 50 – 100,000 clients, Allianz would need to revisit the decision to administer large numbers of micro-savings accounts – as this may not be the core competence of Allianz. A savings-rewarding insurance where the sum insured is linked with the savings deposit seem to be a better alternative.

**Question:** What are some positive and negative linkages between microfinance loans and voluntary individual life insurance?

**Answer Allianz:** The advantages of working with MFI distribution partners are manifold, and MFIs will continue be our main distribution channel. However, the success of insurance products linked with microcredit may also depend who makes the decision to buy insurance – the husband or the wife. We experience that many contracts lapsed after the husband found out that the wife signed up for a saving and insurance product. Men may agree that women take a loans (and carry the risk of paying back the loans), but may hesitate to invest household savings to buy insurance. Spending priorities seem to differ between men and women among VisionFund clients.

**Question:** Could the relation between the premium amount and the loan repayment amount be a problem, especially when the premium is high?

**Answer VisionFund:** This was no problem in the case of TAMADERA, and insurance premiums of even 20% of the loan repayment amount are not problematic as long as both are small. The synchronization of the loan repayment schedule with insurance premium due dates was a greater problem.

**Question:** What happens to the insurance after loan is fully repaid and the client is no longer coming to branch regularly?
**Answer VisionFund:** That was a problem; clients don’t want to come to branch just to pay premium, and loan officers will not go visit the client just to collect premium. This is one of the reasons why clients in general prefer shorter insurance durations.

**Question:** Any other thoughts in respect of the partnership between an MFI and a provider of microinsurance, for example concerning voluntary as opposed to mandatory insurance?

**Answer VisionFund:** Asset accumulation is important for clients, but changing their attitudes towards savings / premium discipline is the big challenge.

**Question:** How helpful did the technology support prove in practice?

**Answer VisionFund:** The technology helped, but more flexibility is required, for example for advance premium payments when a client finds it convenient to pay the next three premiums at once.

**Answer Allianz:** The required flexibility can come from three sides: 1. the product; 2. the processes; 3. the technology. We have the appropriate processes and technology, but it seems that the technology due to various reason was not properly used by our partner. In future, Allianz will have to develop even more user-friendly technologies and provide more training, which should meet the willingness of the partner to use these systems.

**Question:** Is one obstacle to more flexibility the need to interface with the core Allianz administration systems that cannot easily be changed?

**Answer Allianz:** TAMADERA is a sophisticated product and does not allow to make ‘quick fixes’. TAMADERA allows non-payment of premium for only two consecutive times and weekly premium payment was assumed (with a two week premium holiday during the highest public holiday in Indonesia). Reinsurance conditions are based on that, so Allianz has limited flexibility to change product features under the reinsurance contract. Hence increasing the flexibility of the product requires revisiting all the actuarial and other design work (in addition to renegotiating the reinsurance). So there are more limiting factors than the technology.

**Question:** Why was TAMADERA reinsured?

**Answer Allianz:** Allianz Indonesia did not have experience with products such as TAMADERA, and there is very little experience with critical illness cover for low income households. As large volumes were anticipated, the engagement of reinsurers and risk sharing was required.