Learning Journey

Max Vijay

Reducing costs by leveraging technology and educating the customers, to bring life insurance benefits to the low-income people

Contents

Project Basics.............................................................................................................................................. 1
About the project........................................................................................................................................... 1
Project Update........................................................................................................................................... 2
Key Indicators ............................................................................................................................................. 2
What is happening? ................................................................................................................................... 2
Project Lessons .......................................................................................................................................... 3
On client value ........................................................................................................................................... 3
On marketing and branding to raise awareness for mass products............................................................. 3
On customer care and the effective use of call centres.................................................................................. 4
On retailers as distribution channels for microinsurance .............................................................................. 4
On use of top-up infrastructure and methods of distribution ...................................................................... 5
Next Actions .............................................................................................................................................. 6
Project Basics

About the project

Traditional endowment products are often criticized for providing low value to the poor as these vehicles lapse when people neglect to make a contribution, and hence people lose most of their contributions made until that time. In mid 2008, Max New York Life launched a Max Vijay product that challenges this popular view, and as such numerous competitors on the Indian market.

Max Vijay’s life insurance product is a 10-year life insurance policy with a long-term savings component, with a minimum initial premium payment of 1,000 rupees and a maximum death benefit of five times the premium payments received in the case of natural death and ten times the premium received in the case of accidental death, up to a maximum of 50,000 rupees for the cheapest variant. The Max Vijay policy specifies that 60% of the initial payment and 90% of subsequent payments be invested in government securities and equities by Max New York Life, with the rest covering the premium for the life insurance component. Investment earnings are added to the policyholder’s account each year and are guaranteed by Max New York Life; policyholders can start withdrawing funds from the policy after three years. Policyholders are required to pay surrender fees if they close the policy completely, with fees declining over the life of the policy. After 10 years, the policy terminates and the account balance is paid to the policyholder as a maturity benefit. If the policyholder dies before 10 years but after six months of the effective date of coverage, the beneficiary receives the account balance and the death benefit amount.

Market research on insurance purchase revealed that the four main reasons cited by people in India who did not purchase insurance were high regular premiums, fear of policy lapses, aversion to health checkups, and dependence upon an agent (i.e. when the client moved or the agent departed, the link was broken). The Max Vijay product was designed to overcome these challenges. The policy can be “topped up” periodically at the policyholder’s discretion, with amounts as low as 10 rupees. The clients are not linked to a specific agent and can recharge their policies in many outlets in their vicinity such as small shops, microfinance institutions, government kiosks, etc. In addition, the policy cannot lapse as irregular contributions are accepted.

<table>
<thead>
<tr>
<th>Project Summary</th>
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<tbody>
<tr>
<td><strong>Project Name:</strong></td>
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<tr>
<td><strong>Project Start Date:</strong></td>
</tr>
<tr>
<td><strong>Duration:</strong></td>
</tr>
<tr>
<td><strong>Country:</strong></td>
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<td><strong>Product:</strong></td>
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**Project Updates**

**Key Indicators**

The following performance indicators are valid as of August 2010.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Q1 2009</th>
<th>Q1 2010</th>
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<tbody>
<tr>
<td>Number of policies</td>
<td></td>
<td>90,135</td>
</tr>
<tr>
<td>Share of policies with top-ups</td>
<td></td>
<td>20%</td>
</tr>
<tr>
<td>Premiums collected (incl. savings, in Rs Lac)</td>
<td>91.53</td>
<td>154.47 (1.2 million USD)</td>
</tr>
<tr>
<td>New business</td>
<td>90.11</td>
<td>100.76</td>
</tr>
<tr>
<td>Top Up</td>
<td>1.42</td>
<td>53.71</td>
</tr>
<tr>
<td>Number of claims paid</td>
<td></td>
<td>32</td>
</tr>
<tr>
<td>Claims ratio</td>
<td></td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

( but with 6 m waiting period it is too early)

**What is happening?**

**December 2008**

Product was successfully launched. It was distributed mostly through established MNYL channels such as financial product distributors.

**September 2009**

Major pilot test to use retailers as the delivery channel was launched in Agra. Other push channels such as NGOs and MFIs were also activated.

**April 2010**

With 90,000 active policies and a Gross Written Premium of approximately $1.2 million US Dollars as of mid 2010, Max Vijay was performing impressively compared to other microinsurers.

A major campaign focusing on trust and top-up incentives was completed in Agra.

**July 2010**

Major changes in regulation came about which made it difficult to use retailers as referral agents. The entire business model for pull channels is to be redesigned which will slow sales in the second half of 2010.
Project Lessons

On client value

The product will provide value to clients and will be viable for Max New York Life only if regular savings behaviors are sustained. Regular savings increase value for clients from both savings and insurance perspective. Moreover, the entire business model is built on this assumption.

Upfront premium mechanism makes it hard for people to decide to buy the product. The initial payment of 1,000 rupees is a barrier for poorer households, thus hampering access to the product. The Max Vijay product has been built upon a careful rationale for the initial premium payment. The company’s actuaries strongly believe that these amounts could not be set any lower since as much as 40% of the payment is required to cover administrative costs and risk premium. According to the actuaries, the only way to make this low-ticket product sustainable is to charge a higher amount upfront. Even if people do not top up their policies, Max New York Life can still recover the incurred costs and provide the current benefit amounts.

One way to make microinsurance premium payments as flexible as possible is to link insurance to credit. However, linking insurance to credit has some drawbacks. MFIs and NGOs that sell Max Vijay very often increase loan amounts to accommodate the initial premium payment. However, when insurance is linked to credit, clients might be less aware of the value they receive as they pay less attention to what they pay. Clients might buy policies that are beyond their capacities. Credit providers also have a major dilemma about how to deal with clients who default on their loans as their insurance policies are still in force and it is difficult to cancel them from the regulatory perspective.

On marketing and branding to raise awareness for mass products

Building an aspirational brand with well-known celebrities to raise awareness can be effective, especially when mass products are in question. Max New York Life hired a well-known and trusted Bollywood star, Shahrukh Khan, to serve as a spokesman for Max Vijay. This celebrity endorsement -- in combination with a complex marketing strategy including advertising (television, radio, print and billboard), mobile vans, and contests -- meant that the company is spending significant amounts of money to build its brand. In Agra, awareness of the Max Vijay product has reached approximately 65% over three months with an impressive peak after the major investment in the brand ambassador. According to Max New York Life managers, building an aspirational brand is the only way to get any attention in today’s India.

Finding a hook to start communicating with target audience is key. Fuelled by strong branding, Max New York Life has found that focusing a marketing campaign on benefits of regularly saving small amounts of money can be more effective in engaging low-income populations than focusing on abstract ideas. Building assets is much better received as a concept compared to protecting a family when one dies. Once the Max Vijay team is able to engage its audience, it is able to gradually explain key features of the product. This sequencing seems to be important. The messages do not need to be dull as shown
in a recent change of wording from: "Now, with Max Vijay, you will get financial independence and every Indian citizen will gain control over his status" to "Become the hero of your family with Max Vijay."

**It is possible to focus on just 3-4 items when explaining key functionalities of the product.** Explaining more at this stage can only harm as people would not read even one. Besides explaining where the product can be bought, the Max Vijay team focuses on the options for withdrawing saving, toll free call centre number, and functionalities of life cover.

A key trend observed for mass products is to move from print heavy campaigns to initiatives with greater focus on outdoor activities such as meeting existing and potential clients, contests and quizzes, point of sale visibility and sales aid. Max Vijay team realized that these components were more effective in supporting sales than printing point of sale materials, billboards or even advertisement on TV and radio. It seems like on-the-ground marketing coupled with national branding might be a better solution to create buzz and interest in the product. Same lessons were learnt by Alternative Insurance Company in Haiti who used street games, van with video, etc.

Ongoing marketing for at least next two years would be needed to sustain regular savings behaviours. Max New York Life has found that when there is no pressure, sales are cut by half.

**On customer care and the effective use of call centres**

With advancements in mobile telecommunications, call centres can play a major role in education and servicing the clients. Call centres can ensure that clients understand the basic features of the product at the time of purchase, and allow clients to check their statement and confirm that deposits have been credited to their account. This is important since product understanding among poorer clients is limited, with most focusing on the savings rather than the life insurance aspect. Max Vijay clients have access to a toll-free call center available from all telecommunications providers. In addition to providing good customer service – enabling the company to stay in touch with the client, update data, and ensure that the client understood the product - the call center serves to build trust in Max Vijay’s products. Clients know that through the call center, they have ongoing access to professionals who can answer their questions and confirm their deposits. Lastly, it is often used to close sales or support sales processes.

**On retailers as distribution channels for microinsurance**

Ongoing training and marketing costs as well as commission structure and high density requirement put the viability of selling insurance through unorganized retail at risk. MNYL have learnt that they need to be very selective in identifying the right retailers; a scorecard developed for this purpose builds on best practices in FMCG distribution. Training costs are very high as retailers need to speak the Max Vijay language and feel like they belong to the Max Vijay family. Costs are not reducing as retailers need at least two years of coaching, a peer-to-peer forum, etc. Additionally, Max New York Life needed to redesign processes and systems to limit transaction costs for retailers (no hand-held devices, call centre, stronger marketing).
On use of top-up infrastructure and methods of distribution

Top-up infrastructure should be present from day one. It does not make sense to launch sales with push channels if clients do not have top-up infrastructure around them. Limited value for pull channels if top-ups are low.

Government intervention might be needed, both in terms of distribution infrastructure and subsidies to seed the market. Initial marketing costs are high and it might be difficult for one insurance company to bear them.

Contrary to earlier belief, hand-held devices were not accepted by the market. Transaction costs for both retailer and clients were too high in terms of time spent on typing the number. The best technology mix is manual/call centre/e-portal initiation, and mobile or scratch cards for top-ups.
Next Actions

MNYL have three major focus areas for next steps: create trust and credibility with consumers, create an environment where potential customers are receptive to hearing about Max Vijay, and continue to enable and motivate retailers. Pull channel model needs to be redesigned in light of stricter regulations. MNYL is searching for a wide national network to provide access to its customers to top up their policies.