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Project Basics

About the project

The history of Old Mutual South Africa (OM) dates back to 1845 when the 166-member Mutual Life Association of Cape of Good Hope was founded. In the late ’70s and early ’80s, Old Mutual cemented its entry into the so-called retail mass market. Thirty years later, this part of the business has grown to be one of the most significant contributors to both revenue and profit.

In 2007, Old Mutual Retail Mass Market division launched its Foundation Market strategy by setting up a distinct business unit to focus on the low-income market segment in South Africa. The unit counts 10 permanent staff at head Office and 75 agents as a sale force. The Unit shares some resources (such as actuarial, marketing, HR) with other departments of the company. The target market segment has a household/personal income of up to R3000 per month, which is also expressed as LSM 1 to 5 in the living standards measure.

The Foundation Market strategy involves a two-pronged approach: group strategy (community solution) and individuals.

Group focuses on selling formal funeral cover to groups belonging to burial societies primarily or to groups as affinities, churches, savings groups, agriculture project groupings, social development project groupings, burial society groupings, and villages linked to traditional leadership. The two products offered are the Burial Society Support Plan (BSSP) and Group Funeral Services (GFS). Old Mutual introduced BSSP in 2003 as its initial entry into the lower income market in South Africa, and GFS was introduced in 2008. Both products are group funeral covers, targeted at traditional burial societies, which are an important source of community support (financial and otherwise) when a death occurs. The level of coverage is selected by the group (burial society) and applies to all principal members. The group may also choose among providing individual coverage only, individual plus immediate family coverage, or extending coverage to adults who are dependents of principal members, but not immediate family. Coverage is mandatory for every group member. BSSP is a flat premium product, whereas GFS is an age-banded product sold to societies linked to funeral parlors. Both BSSP and GFS products are sold through a network of OM agents in 13 regions of the country.

For individual sales, the Foundation market launched the “Pay When You Can” (PWYC) funeral product, distributed by ShopRite, one of the biggest food retailers in South Africa. PWYC is an innovative product that provides flexibility and convenience to adapt to the irregular income of the target population. It is designed to be similar to cell phone retail products, where a starter pack provides the basic registration and coverage details, and top ups are purchased as necessary or desired. Registration and top-ups are done by sending an SMS with a specific PIN number to the company.
OM is also launching a bundled life and saving product (Provider Plan), to be sold by community runners (people from the community, receiving commission) in a form of a Tick-a-box product.

Together with subsidiaries Nedbank and Mutual & Federal, and in partnership with black empowerment partner Wiphold, Old Mutual is testing a one-stop-shop strategy to bring an array of financial products and services to underserved communities through one central location in four pilot sites: Centane (Eastern Cape), Kliptown (Johannesburg metro area), Idutywa (Eastern Cape) and Acornhoek (Mpumalanga Province), with four more sites planned for 2011 and 2012.

This initiative, called Imbizo, is seen by all partners as a laboratory for designing financial products that fit the rural population needs (livestock and asset products have been designed, a micro-loan product developed by the bank) and a test for a new approach for business. In each Imbizo site, the companies go beyond proposing their products and are working to improve community welfare through close partnerships with all stakeholders and investments in development activities.

The Foundation market is also in charge of the financial education module “On the Money”, in compliance with the regulatory requirement to invest 0.2 per cent of the company profits in financial education, and will conduct an impact evaluation of the module as part of the project proposed to the Facility.

Learn more about the BSSP and GFS products

Learn more about the PWYC product

<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>
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<td><strong>Duration:</strong></td>
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<tr>
<td><strong>Country:</strong></td>
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<td><strong>Product:</strong></td>
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Project Updates

Key Performance Indicators

BSSP/GFS:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>May 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of lives covered</td>
<td>94,107 policy holders, representing 444,775 lives covered</td>
</tr>
<tr>
<td>Growth rate</td>
<td>48%</td>
</tr>
<tr>
<td>Coverage ratio</td>
<td>7% of all the Low income population segment (6.2 million)</td>
</tr>
<tr>
<td>Average size of group</td>
<td>41</td>
</tr>
<tr>
<td>Number of sales consultants</td>
<td>62</td>
</tr>
<tr>
<td>Claim ratio</td>
<td>63%</td>
</tr>
<tr>
<td>Claim rejection ratio</td>
<td>&lt; 4%</td>
</tr>
<tr>
<td>Expense ratio 2009</td>
<td>42%, including subsidies</td>
</tr>
<tr>
<td>Lapse rate</td>
<td>45% per year</td>
</tr>
</tbody>
</table>

PWYC:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>May 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of lives covered</td>
<td>641 active policies, representing 3,000 lives covered</td>
</tr>
<tr>
<td>Registration rate (% of</td>
<td>68%</td>
</tr>
<tr>
<td>activated starter packs</td>
<td></td>
</tr>
<tr>
<td>among sold ones)</td>
<td></td>
</tr>
<tr>
<td>Top up rate</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

What is happening?

As of October 2010

BSSP/GFS

Due to the high claim ratio observed in the portfolio from 2005 to 2008, an aggressive clean-up process was undertaken towards the end of 2008, where rates were increased for groups with higher claims ratios, resulting in a contraction of the portfolio in 2009 (from more than 100,000 principal members in 2007 to 60,000 at the end of 2009). While this was a material loss of business for OM, it improved the overall quality of the remaining client portfolio, and the claims experience improved accordingly. A further adjustment was made in February 2009 to eliminate a provision in the policy that allowed for a principal member to “replace” an insured Adult Dependent with another person upon the death of the original insured dependent and yet continue to pay the same premium. This provision had meant that the insurance was providing coverage for more people than anticipated when the premium rates were developed. Elimination of this provision also improved the claims experience. Recent claims ratios have
been in the range of 63 per cent to 68 per cent, which is reasonable given the target ratio of 68 per cent used in pricing assumptions.

The GFS product was launched in 2008, mainly to address competition and provide younger groups with more attractive pricing. However, a 2010 internal analysis of the performance of BSSP and GFS in the market indicated that these products were not yet competitive, and rates were revised based on the 2009 mortality study, as well as adjustments to the age bands for GFS, and new expense assumptions. The age bands were reduced from six to four, consistent with competitor product offerings.

A new incentive model was implemented in early 2010 to motivate the agents to increase sales, reduce lapses and register less risky schemes. Agents receive bonuses only if they are “viable”, meaning that the premium received exceeds their salary, after which bonuses are calculated based on new sales, lapses and claim ratio level.

**PWYC and Provider Plan**

The individual products, Provider Plan and Pay When You Can (PWYC) products are nearing their final stage of development and approval. They will be rolled out in the fourth quarter of 2010 or first quarter of 2011. ShopRite retail locations have been identified as a distribution partner for the PWYC product.

In Imbizo, challenges were encountered with the group collaboration approach among the three companies of Old Mutual, Nedbank and Mutual & Federal, especially as partners had competing products to offer. The over-riding principle was that competing products would be allowed between the partners, but that in presenting a united front such as during village meetings or blitzes, each partner would only present their core product. The other products remain available for sale in each organization’s sales office within the Imbizo site.

**Impact Study**

The financial education impact study was approved, research partners assigned, initial proposal tabled and funding secured. Delivery will commence in February 2011, with the preceding months focused on design and planning.

**As of July 2011**

**BSSP/GFS**

In 2011, Old Mutual introduced a special promotion where the waiting period was reduced to two months, or waived for large groups with evidence of prior coverage. This has provided a significant boost to sales, but the net impact has yet to be measured. As of this period the growth rate is 48 per cent, with the book growing from 64 000 principal member in June 2010 to 94 000 in June 2011.

**PWYC**

PWYC was re-launched in January 2011, and 55 000 starter packs were distributed in 20 Shoprite Stores. The re-launched product is similar in design and benefits to the original product, with considerable enhancements made to simplify the registration and top up process. The original product could be
purchased at the till, but required the policyholder to queue at a Money Market counter (in all Shoprite stores) in order to complete the application and registration process, which was time-consuming and lengthy. The process was redesigned to enable the policyholder to register or top up with a simple SMS. The re-launch has also focused on strengthening the partnership between OM and Shoprite. A significant challenge during the product development process was to coordinate IT requirements between Shoprite and Old Mutual to ensure the process was completely functional and integrated with both of their administration systems. Sales have been much slower than anticipated so far, and registration rates are not convincing yet.

Above the line marketing campaign, as well as in store promotion has been completed, are showing significant impact but sales still remain low (an average of 30 sales a week without specific promotion, 150 with a marketing campaign).

Provider Plan

The new Provider Plan product was developed as an individual “Tick-A-Box” insurance and savings policy to be made available to clients through Imbizo sites, as well as associations or affinity groups. It was developed in mid-2010, pilot tested in December 2010, and launched in May 2011 through accredited advisors. Old Mutual has also received sign off on its “runner” model for distribution, and has already recruited several “runners” for the Centane Imbizo area. It is a “no-advice” product: the product brochure and application are given to prospective clients along with a stamped, self-addressed envelope, and if they are interested they can complete the application form and post it to Old Mutual.

In December 2010, Old Mutual conducted a test of the Provider Plan product with a closed group. The audience was a group of women shareholders in a women-owned coal mine whose, Wiphold (Old Mutual’s partner in Imbizo), who were meeting to receive the first dividends from the company. Old Mutual used the opportunity to distribute a “goodie bag” to each of the women, all of whom are in the target foundation market of LSM 1-5. The bag contained a letter explaining the contents of the bag, as well as a brochure, application form and stamped self-addressed envelope. The objective of the test was to see how many people would respond, as well as to measure different responses by category. Out of 2500, however, only four responses were received. This suggests that passive marketing may not work with this product, and that more client interaction is required. The runner model is likely to provide more direct interaction with clients, so this will need to be monitored and evaluated against sales from licensed advisors.

Impact Study

The baseline survey for the financial education module was finalized and the first questionnaire was administered in June 2011.
Project Lessons

On identifying the most effective business model to reach the foundation market

Prior market research indicates that both group and individual buying behavior exist within the foundation market. Both must be considered in order to effectively reach this market. As such, Old Mutual’s Foundation Market strategy takes into account group buying behavior through its affinity-based and community-based model, and individual buying behavior through its retail distribution.

On creating a Microinsurance Business Unit

Microinsurance activities require different processes than traditional business, both for product development and monitoring and evaluation. Creating a separate business unit can help to set different standards for microinsurance products, but the unit needs to have a clear mission/vision statement, define clear objectives and develop an appropriate M&E framework (which can include both quantitative and qualitative objectives). Even if sharing resources with other departments can be a way to reduce administrative tasks, it increases the risk of applying the same standards for microinsurance as for other lines of business and may decrease reactivity. For example, for the BSSP product, quotes for large groups are done at head office, by the Retail Mass Market team, leading to a sales cycle of 2-3 months, which negatively impacts potential performance of the product.

On product design

A group product design with a flat rate enables inclusive coverage. The BSSP product is attractive for rural populations, as it mimics informal mechanism for funeral coverage, and is easy to understand for the target population thanks to its flat rate. There are neither age limits at registration nor exclusions, and no underwriting requirements, as adverse selection is limited thanks to the mandatory registration of all group members. But in a competitive market, flat rates are expensive for the younger part of the population and BSSP products starts attracting older membership (representing higher risk). The GFS product is more attractive for the younger groups, which may prefer price competitiveness to simplicity.

Enabling inclusive coverage, such as reducing or eliminating the waiting period improves sales. The waiver of the waiting periods for previously insured groups has created a significant increase in sales. However, the net effect of this may also be an increase in claims, which should be measured.

It is important to segment the market, as burial societies in South Africa are of two categories, smaller burial societies that are managed by the community, and larger groups that are managed by funeral parlours, each of which have different characteristics and needs for funeral product. The groups managed by funeral parlours have higher expectations of profits and will switch the business more frequently. In addition, the larger groups either provide some level of self-administration or use a third partner administrator, which requires specialized software and IT links to be provided by the insurer. OM first focused on addressing the needs of the smaller groups, but the Foundation Market is now trying to reach the funeral parlors, by launching the more price-competitive GFS product and developing software which will enable web-based administration.
Group product management requires a different system than individual products. As OM has always been in the business of individual policies, the administration for BSSP was originally set up on a system for individual insurance policies, customized to allow for some level of group billing and member data. OM is now developing a new system to suit the requirement for appropriate administration of group policies.

Too much flexibility in the product design can be simplicity’s enemy – especially in a retail distribution model where most sales are passive. The PWYC product is meant to address income irregularity by providing a top up option rather than requiring monthly premium payments. All top ups are for 14 month coverage, including a two month waiting period. While the design is flexible, it adds complexity as it is difficult to calculate the active coverage amount at different points in time. Pre-launch market research as well as low sales performance are showing that the market does still not fully understand the new concept, as it is the first of its kind and is not supported by adequate knowledge of the product by Shoprite staff. OM will work on increasing product knowledge among front line staff and enhance the benefits of the product.

On the importance of monitoring and evaluation

Regular monitoring of mortality experience and adjustments to rates and/or benefits has resulted in a significant improvement in claims ratios. Old Mutual initially experienced challenges with the claims ratio of its group funeral insurance product, with a ratio over 100 per cent in 2005 and 2006. This was partly due to the mortality experience, which was higher than expected based on data from other market segments, and partly because of a provision in the policy that allowed members to replace dependents. To monitor the mortality rate, Old Mutual instituted a review process whereby an automated report was generated when a group’s claims ratio exceeded 70 per cent and premiums for many high-risk groups were increased in 2008. This resulted in more lapsed policies, but improved the quality of the groups retained in Old Mutual’s portfolio. Old Mutual made another adjustment in 2009 to eliminate a policy provision that allowed a principal member to replace an insured adult dependent with another person upon the death of the original insured dependent, without any change in the premium. The above adjustments to process, product and pricing, made as a result of claims monitoring, have contributed to improvements in the claims ratio, with recent ratios being in the range of 63 to 68 per cent (at or near target).

On sales management

Direct sales costs can be contained if the product is sold on a group basis. The BSSP/GFS design enable sales agents to manage, on average, 1500 principal members, or 6000 lives covered per agent. In 2011, the cost of the sales force represented 27 per cent of the premium collected, even for a product with monthly premium. OM’s objective is to decrease this ratio to 14 per cent through a better incentive structure and more efficient processes.

Recruiting sales agents from the local communities has proved successful to build trust among the population. OM recruits its agents from the community, which enable a better contact with the burial societies and a higher level of trust between the agent and the groups.

Incentive models need to be easy to understand and motivate the sales force. It is not worth developing a complex model that leads to no bonuses paid, and hence no change of behavior among the sales force. For OM, only 1/4th of the sale agent are viable and only half were entitled to bonuses (as
of June 2011), decreasing the impact of the model to reduce lapses. Moreover, the bonuses are rewarding new sales more than low lapses, and agents with stable and large portfolios may not be rewarded. This experience suggests that a different incentive structure recognizing the separate roles of sales and service functions might be more effective. A clear demarcation between sales and servicing roles, a more focused training program, and changes to the incentive structure are currently being considered in response to these issues. Sales Consultants could work in teams but specialize in either sales or servicing; once the sales cycle is completed the “service consultant” would step in and manage the client relationship. The bonus structure will have to be adapted accordingly, as both viability levels and performance bonuses will have to be customized to each type of role.

**On the impact of competition and regulation**

**Competition leads to price pressure and greater efficiencies.** If in 2003, OM was a pioneer in servicing the low-income market, competition is now high in this segment (especially from cell captives) and implies price pressure. OM had to review its pricing and offer to cope with the situation, including lower expense ratio assumptions. OM needs to find more efficient ways to sell the BSSP product and has introduced a new incentive model for the sales force. Competition may also explain a slightly higher lapse rate of the portfolio, from 35 per cent in a first year in 2003 to 45 per cent now.

**Working in a highly regulated environment adds constraints to reach the market.** The consumer protection and privacy regulations limit the effectiveness of a one-stop-shop model at Imbizo sites, as it prohibits companies, even related companies, from sharing client data that they have not collected themselves and subsequently are not able to cross-sell. It also prevents them from developing composite products for Imbizo clients that could provide protection or savings across traditional product lines (for example, an insurance policy that provides both property and funeral coverage).

**On building effective partnerships**

**It is important to involve the distribution channel in the marketing campaign design, as it knows the market.** In the case of PWYC, the marketing plan was developed jointly between Old Mutual and Shoprite: although led by the marketing team at Old Mutual, Shoprite had input into the marketing material and plans and insisted on having sign-off authority on all the material to be displayed in Shoprite stores. It was a significant learning curve for Old Mutual to adapt its traditional approach to one that was more suited to the market it was trying to reach.

**In a multi stakeholder partnership, such as the one for Imbizo, it takes considerable "central" management for the partnership to work.** Having an external organization (Wiphold) coordinating the initiative has proven successful in the case of Imbizo. A key element is the shared project manager, who provides a united “face” to the community and is able to resolve issues quickly at ground level.
On comparing direct sales model vs retailer model

It is difficult to efficiently motivate and monitor the front line staff in the retail distribution model. First, the staff turnover is high and it is difficult for cashiers to know the PWYC processes. Moreover, in the Shoprite arrangement, several funeral products are available at the till, and cashiers often don’t know the specific registration process for each. In this set up, it is also difficult to set incentives for sales. At Shoprite for example, incentives for selling PWYC accrue to Shoprite at the corporate level rather than the store level, and there is no financial incentive for the store managers to attractively display or push the product.

Expense ratios for both models are comparable. With a 42 per cent expense ratio in the case of BSSP/GFS product and an estimated 50 per cent expense ratio (including marketing cost and commissions) for the PWYC product. Longer monitoring of expenses vs volume will need to be monitored to continue comparing the distribution models.

Next Actions

• Split the sales force for BSSP / GFS into sales and servicing agents, in some selected pilot regions and monitor the sales results
• Distribute PWYC product to temporary workers groups (domestic workers, nurses etc.)
• Analyse the impact of marketing campaigns for PWYC
• Open an Imbizo in Momat Frere and Lusisiki (Eastern Cape region) and in Kuazulu natal