Zurich Bolivia: Partnerships for Success[1]

The Microfinance revolution

A timely convergence of events, personalities and donor funding in the late 1980s and early 1990s enabled Bolivia to emerge as the world's most productive microfinance laboratory. The experiences of the Grameen Bank, BRAC and others in Bangladesh might be more widely known, but Bolivia was responsible for moving microfinance from a development strategy into a commercial endeavour.

Emerging from Bangladesh, Bolivia and elsewhere, the primary innovation to make it possible to lend to the poor was a methodology whereby a group of poor persons, often women, agreed to guarantee each other's loans. By bundling many small loans together, this group approach made it possible to efficiently lend to the poor while overcoming the fact that this market lacked collateral. Furthermore, since group members were expected to know each other already and be able to vouch for one another, the group lending methodology reduced the screening costs for the microfinance institutions (MFIs).

Bolivia's major contribution to this innovation was to make it possible for MFIs to become regulated, and therefore provide valuable savings services and access the capital markets to fund their growth. In 1992, to satisfy a growing demand for its services, the microcredit non-governmental organization (NGO) Prodem created Banco Solidario S.A. (BancoSol), the first commercial bank in the world targeting the low-income market.

But Bolivia did not stop there. From the experiences of regulating BancoSol, applying commercial bank approaches to regulation and supervision that were ill suited to microfinance, in 1995 the Superintendency of Banks created a new category, the Private Financial Funds (FFPs). Incorporated as companies, these organizations specialize in the intermediation of resources between small depositors and low-income borrowers. With the creation of the FFP category, most microfinance NGOs reconstituted themselves as anonymous societies, which enabled them to collect deposits from the public under the supervision of the Superintendency of Banks.

Today, following the example of BancoSol and the Bolivian regulatory environment, more than 40 NGOs around the world have created regulated financial institutions, in numerous countries from Kenya to Cambodia, from Mexico to Mongolia. Bolivia has commercialized the global microfinance revolution.

With the constitution of the FFPs, the Bolivian financial system experienced significant deepening. Through these financial institutions, the private sector was able to reach out to new markets that were previously considered unbankable. Today, Bolivian MFIs – including microfinance banks, FFPs, microcredit NGOs and credit unions – serve an estimated 800,000 low-income persons, or roughly 20 percent of the country's workforce. Such growth meant that 78% of the customers in the Bolivian financial system now come from microfinance institutions of one type or another.

Although significant progress has been made, although additional strides are required to diversify the financial services available to the poor. In particular, few institutions provide services that enable their clients to manage risks. MFIs are beginning to realize, however, if their clients are better protected against risk, the financial institutions will have better portfolio quality, not to mention the inherent benefits of insurance to their customers. This is the message that Zurich Bolivia has been striving to convey for several years.

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Zurich Bolivia enters the low-income market

The Zurich Bolivia Group, hereafter referred to as “Zurich”, consists of La Boliviana Ciacruz (general insurance) and Zurich Boliviana Seguros Personales (life). It began microinsurance activities in 1999 by providing BancoSol with a credit life product.

However, credit life only provides indirect protection to poor families as the bank is the main beneficiary and the surviving family members do not receive any benefits directly. Consequently, in 2003 Zurich decided to provide a *pure* microinsurance solution, selling group life through strategic alliances with microfinance institutions. This cover provides a tangible benefit to the surviving family and helps them avoid falling further into poverty when they experience a loss.

Zurich became active in microinsurance for a variety of reasons. The insurer’s primary motivation was to generate a diversified portfolio that can provide sustainable and profitable growth. The traditional market for insurance in Bolivia – corporations and wealthy individuals – is not particularly large, nor is it expanding significantly. For this thin market, the competition among insurance companies is becoming increasingly intense. Yet the vast majority of Bolivia’s workforce is employed or self-employed in the informal economy. Future expansion of the insurance sector depends on developing innovative ways to reach this market.

In the process of expanding the market, Zurich also recognizes the social advantages of providing insurance solutions to low-income households. By helping them to manage risks, the insurer is making a valuable contribution to breaking the cycle of poverty. To do this, however, it needs to create wider market awareness about the value and benefits of risk transfer, with the intention of promoting a culture of insurance among poor households.

Zurich’s first strategic alliance for pure microinsurance began in July 2003 with a life product designed for Prodem FFP. Several years after creating BancoSol, the NGO Prodem also created a private financial fund to serve the rural areas. Because of its strong management team and their willingness to innovate, this FFP was able to expand dramatically, even though it was operating in some of the county’s most sparsely populated regions. Consequently, it seemed like an ideal company to start the untested endeavour of selling voluntary term life to the low-income market.

A few months after launching Seguro de Vida Prodem, Zurich began selling an almost identical product, SolSeguro, through BancoSol. For both Prodem and BancoSol, Zurich trained the MFIs’ customer service staff – the tellers and loan officers – about insurance and the product, and provided them with promotional strategies and product brochures. In both cases, Zurich placed agents in the banks’ larger branches to demonstrate the sales strategies and assist the banks’ staff. However, the results from these two leading microfinance institutions could not have been more different.

After two years of lackadaisical sales, and only 1,000 active policies, Prodem and Zurich terminated their alliance. In contrast, BancoSol sold 3,500 policies during the same period and was eager to introduce additional products. Upon reflection, the insurer realized that the key difference was the degree of commitment from senior management toward insurance. While Prodem was undoubtedly innovative, management was lukewarm about the value or importance of insurance. During that period, it was much more important for Prodem’s management team to open up new branches and increase outreach, rather than to diversify their product offerings. Even a 15% commission for selling policies was not sufficient incentive to motivate Prodem’s management to place a priority on insurance sales – in fact, management came to see it more as a distraction than an advantage.

At BancoSol, however, key individuals in the management team had a favourable opinion of insurance and the value that it could bring to the bank and to its customers. They believed that the bank’s clients needed better risk management tools, and if its clients could manage their risks better, that would positively affect the bank’s bottom line. BancoSol also saw insurance as a comparative advantage in Bolivia's competitive microfinance market, as a strategy for enhancing customer loyalty. It did not hurt that insurance also generated an income stream for the bank that was not risk based. To operationalize its commitment to insurance, BancoSol set sales targets for its branches and closely monitored the results.

Zurich did not limit itself to Prodem and BancoSol. It approached all MFIs in the country to inquire about strategic partnerships. Until recently, few were interested, in part because insurance companies do not have a good reputation for providing quality service and paying claims. Of the major players, only Banco Los Andes was interested, but it eventually concluded a partnership with one of Zurich's competitors because, as the prime competition for BancoSol, Los Andes was not comfortable having a common insurer. The reluctance of Bolivian MFIs toward insurance is beginning to change, however, as projects funded by the Inter-American Development Bank and USAID are actively promoting insurance services for the poor.

Besides MFIs, Zurich also tried to reach the low-income market through alternative delivery channels, such as utility companies. In Bolivia, however, the telephone or electricity companies, for example, are prevented from promoting or selling services other than the ones they are authorized to provide. In the future, Zurich intends to approach non-regulated financial institutions, pharmacies and supermarket chains to reach the low-income market through unexploited channels.

The market

The primary market for microinsurance in Bolivia consists of low-income persons in urban and rural areas, with limited disposable income, who are highly sensitive to price. The vast majority of these persons work in the informal economy running unregistered businesses. Most have limited education and few have had previous experience with insurance.

Most poor people manage risk with their own means. Many depend on multiple informal mechanisms, such as community solidarity and rotating savings and credit associations to prepare for and cope with risks. Such systems, however, generally do not adequately protect against costly and unpredictable risks. Dealing with the effects of risks only after they materialize can result in desperate measures that leave poor households even more vulnerable to future risks. Facing severe economic stress, many poor people take out emergency loans from moneylenders. They may also deplete savings, sell productive assets, default on loans, reduce spending on food, and take children out of school.

According to a study by CentroAFIN in 2004, the potential microinsurance market in Bolivia primarily consists of the clients of microfinance institutions (see Table 1). Based on assessment of their interest and willingness to pay for particular covers, CentroAFIN extrapolated the findings to estimate the total market for microinsurance in Bolivia. The results indicate a high demand for health insurance.

Table 1. Estimated Microinsurance Market by Type of Cover

Type of insurance	Percentage interested (%)	Potential market (# of people)	Average amount available per year per household (US$)
Health	75.3	473 419	25.6
Death	31.1	195 529	35.1
Accidents for family members	48.8	306 811	28.1
Accidents for its employees	14.0	88 020	46.0
Theft at home	39.9	250 856	20.8
Theft at workplace	31.6	198 673	31.5
Fire	19.9	125 113	42.3

Source: CentroAFIN

Product development, an ongoing process

Zurich began its involvement in microinsurance by providing credit life solutions, which is quite profitable for the insurer. To date, 89% of Zurich's credit life portfolio covers loans below $10,000, covering more than 120,000 persons, generating annual premiums in excess of $2 million. The loss ratio is around 55%.

However, to help low-income households better manage risks, and to expand its own market, in 2003 Zurich decided to provide group life solutions sold through the microfinance banks. Unlike most insurance products offered through MFIs, which are typically linked to loans, these life insurance products were offered through customers' savings accounts. The monthly premium for this product is $0.99 and the benefit depends on the average savings balance (see Table 2).

Table 2. SolSeguro Product Details

Coverage	Benefits (US$)		Insured Capital Benefit Calculation	Max age of coverage
	Max	Min		
Death	15 000	300	Five (5) times the average balance of the last six (6) months in the related account.	65 years
Accidental Death Benefit	15 000	300	Five (5) times the average balance of the last three (3) months in the related account.	65 years
Burial Expenses	700	300	One (1) times the average balance of the last three (3) months in the related account.	70 years
Additional benefit for spouse and children	200	50	US$50 benefit for every child (max. 4 children). In case of no children, applies a US$200 benefit payable to the surviving spouse.	18 years (children). No limit (spouse)

In comparison to credit-linked insurance, a savings-linked product has important advantages for the insurer, delivery channel and customer. It enables the poor to have insurance protection without being in debt. Some microfinance clients continue to borrow repeatedly to expand their microenterprises, but others take breaks in between loans – and with credit-linked insurance, they would not have any coverage during the breaks. For the MFI, this type of insurance creates an incentive for depositors to increase savings balances since the more they have in their account, the greater the coverage. For the insurer, it increases the potential market, at least where MFIs have more depositors than borrowers, and it creates a more stable customer base with higher renewal rates.

One of the keys to being able to provide insurance to the low-income market profitably is through cross selling, increasing the premiums paid per household. Consequently, soon after launching the life products, Zurich began developing additional covers. The demand research from the CentroAFIN research indicates that three quarters of microfinance clients would be interested in health insurance, and this finding was confirmed through feedback from BancoSol and focus group discussions. Zurich also had a strategic reason for introducing this business line, even though it will have considerably higher administrative costs. Since 95% of BancoSol's clients had never purchased a voluntary insurance product, Zurich believed that it would be helpful if they could see it in action. Since health insurance has more frequent claims than life insurance, and since the insured can experience the benefit directly, such a product can help create an insurance culture among the low-income market, which would have a positive spin-off effect of increasing sales for other insurance products.

In January 2006, Zurich launched two health insurance products with BancoSol, SolSalud and SolSalud Plus. Table 3 summarizes the benefits for SolSalud and SolSalud Plus, which are in addition to the benefits provided by SolSeguro. Account holders at BancoSol have the option of having life insurance (SolSeguro), life plus basic health coverage (SolSalud), or life, health and additional coverage in case of accidents (SolSalud Plus). Customers cannot choose the health coverage without the life insurance; although the $0.99 premium for SolSeguro is included in the health premiums (see Table 4).

Table 3. Health Insurance Product Details

Coverage	Insured Capital	Max age of coverage
SolSalud	Medical consultation at 100%. Auxiliary Services and Maternity at 80%. Hospitalisation and surgeries at 70%. Ambulance at 80% (urban area). Blood transfusion (up to US$300) at 80%.	21 years for children / 65 years for spouse
SolSalud Plus	SolSalud coverage plus up to US$500 per person per year and up to US$2 500 per family group per year for medical expenses in case of accidents.	21 years for children / 65 years for spouse

Table 4. Health Insurance Product Details

Plan Type (USD/month)	SolSeguro	SolSalud	SolSalud Plus
1 Policy Holder	0.99	3.99	4.48
1 Policy Holder and 1 Dependant		6.99	7.97
1 Policy Holder and 2 Dependants		9.99	11.46
1 Policy Holder and 3 Dependants		11.99	13.95
1 Policy Holder and 4 Dependants or more		13.99	16.44

Anyone between the ages of 18 and 65 who has a savings account in BancoSol is eligible for these covers. No medical examinations are required. The account holder only has to complete a short health declaration when they open the account. This inclusive approach is appropriate when serving the low-income market since the sums insured are so small, it is hard to justify efforts to screen out high risk clients. Furthermore, most persons opening up accounts do so because they want savings facilities, not because they want insurance coverage, which helps to control adverse selection.

Moving forward, Zurich may also develop additional products. Micro pensions, agriculture insurance and property coverage are all under consideration.

Operational requirements

Various operational issues need to be addressed to make microinsurance successful, including premium collection and claims payment processes, institutional structures, incentives and so on. From the experiences of Zurich, two issues are important to highlight: the role of information technology and marketing strategies.

Insurance and information technology

Microinsurers must take advantage of ways of improving efficiency if they are to be honest stewards of microinsurance premiums. To facilitate the management of thousands of very small policies, Zurich developed in-house IT applications. Zurich has developed an Intranet application called Front-End Wholesale, which is installed on a server located at the microfinance institution. With this application, BancoSol can issue, cancel and print insurance certificates.

After the clients' information has been entered into the IT Module, at the end of the day an interface file is generated and sent electronically to Zurich, which includes all the registers of issuances, renewals and cancellations. This information is obtained from the movements registered in the Front-End database. When Zurich receives this file, the information is reviewed and validated. The following day, Zurich sends a file back to BancoSol's collection interface to debit the premiums.

During the rest of the day, the application debits the corresponding clients' accounts, generating a favourable or unfavourable response. When the response is not favourable because of insufficient funds in the client's account, the system tries every day to debit the customers account until (i) there is enough money to pay the premium, or (ii) 60 days have gone by in which case the policy is cancelled.

Naturally, this solution required a significant investment. Zurich estimates that it has already spent $50,000 on software and hardware to support microinsurance, but this investment should pay for itself within a year. In addition to streamlining processes and bundling many small transactions into automated procedures, the investment in IT shows BancoSol that the insurer is serious about this business and committed to making it succeed. By integrating its IT systems with the bank, Zurich is also strengthening the strategic partnership. Furthermore, this solution is a platform for growth; it will be used with other delivery channels and other products, therefore spreading the development costs.

Marketing

Most of BancoSol's clients have not had experience with insurance; therefore, considerable effort is required to convince them of the benefits. In the Zurich-BancoSol relationship, the key to successful insurance sales is the bank's frontline staff, the tellers and credit officers. If these people are not convinced that insurance is valuable, they will not be very persuasive. Consequently, Zurich focuses its energies in training the bank's staff to sell insurance, providing refresher courses every 3 months. In addition, in the bank's largest branches, Zurich places one of its own people to demonstrate insurance sales practices and help answer questions. This approach was somewhat risky; BancoSol was so impressed with their skills, that the bank has since hired two of them away from the insurer.

Thus far, growth of voluntary products has been moderate. Almost 10% of the bank's depositors have chosen insurance. Many of those who have not opted for coverage still do not understand how it works or appreciate its value. Nevertheless, Zurich is averaging 400 new policies each month, and expects that the health insurance products will improve sales. Plus, with improved communication and marketing tools, the penetration rate should increase substantially. To raise awareness and accelerate growth, Zurich is in the process of developing testimonial advertising with clients explaining how they have benefited from insurance, which will be shown to persons waiting in line in BancoSol's branches. The printing of marketing material and the promotion of the products through television, radio and newspapers, have been made in conjunction with BancoSol.

Besides the customers' unfamiliarity with insurance, another key challenge is the low staff retention among the bank's sales promoters. This is being addressed through continuous training sessions and the creation of some incentives for the bank's employees. For example, for the best insurance salesperson in BancoSol, Zurich is offering a paid weekend for 6 persons in a very nice hotel.

Results and conclusions

The insurer believes that sustainable profitability around 15 to 30% in relation to gross written premiums (GWP) can be achieved in microinsurance, with 10% for administrative expenses, 20% for commissions, and a 40 to 55% loss ratio. As shown in Table 5, even though Zurich has only been in the microinsurance business for a couple of years, it is already achieving these targets.

Table 5. Zurich Bolivia Organisation Basics – Trends*

	2006	2005	2004	2003	2002
Total number of all clients (thousands)	71,346	57,650	41,888	16,134	8,615
Total number of microinsurance policyholders	46,015	36,222	24,826	689	N/A
Total number of microinsurance insured lives	47,540	36,222	24,826	689	N/A
Microinsurance premiums collected (US$)**	661,098	376,311	331,681	246,399	113,705
Microinsurance claims paid (US$)**	196,510	58,050	215,377	102,290	16,644
Loss ratio (%) for microinsurance**	29.7	15.4	64.9	41.5	14.6

* This information excludes Credit Life clients.

** Including Seguro Múltiple (life & accident), AP Bancruz (personal accident), SolSeguro, SolSalud and SolSalud Plus (all pure microinsurance products, excluding credit life)

Operational results are adequate as losses are controlled below 30% when compared to GWP and commissions under 18%. SolSeguro has a 70% profitability (assuming a 10% administrative expense ratio). SolSalud and SolSalud Plus currently have profitability ratios between 40 and 45%.

For Zurich, the key to minimizing the operating cost ratio is the strategic alliance with BancoSol, which enables the insurer to use the bank's infrastructure to reach the target market. If Zurich wanted to access the market on its own, the investment in distribution outlets or other type of representation in each area would have made the product too costly.

Because of the small premiums, an automated administrative process is imperative. The use of Zurich's IT application considerably reduces transaction costs by eliminating manual processes and minimizing reprocessing due to human error. This is where Zurich has an important competitive advantage as it is the only entity that has invested in the development of a specific IT tool to support and manage the channel, aggregating value and creating an operational inter-dependence between the insurer and the financial institution.

The success of this distribution channel is not guaranteed. Microfinance institutions are heterogeneous. Some are banks and finance companies, others are NGOs or credit unions. They have different motivations and priorities, and those priorities change over time. Of the dozens of Bolivian MFIs that Zurich approached three years ago, only a few were interested in microinsurance. Today, many more are coming on board, although with varying degrees of commitment. Indeed, success in partnering with MFIs depends on the commitment level and effort of the MFI's top management. They have to embrace microinsurance, adopt it as their own, and manage it together with their traditional products.

Even though Zurich is Bolivia's microinsurance pioneer, it is not resting on its laurels. It is keen to have more and better information about the target market so it can develop better insurance products for the poor. It also wants to improve efforts to educate the low-income population about the functioning, characteristics and value added of insurance. To accomplish that objective, it is imperative to provide ongoing training to the bank's customer service personnel, or to build the capacity of the bank to train its staff on insurance.

Microinsurance products have to be generated under non-conventional parameters, adequate for the low-income population; structured to be low cost, with minimum adequate coverage and easy to understand to immediately draw the client's attention. In addition, one product is not enough. Although products have to be kept simple so that staff can easily explain the products' features and benefits to an uneducated market, a diversity of products helps the insurer increase the amount of premiums it is collecting per household.